

The Circularity of Ideologies

“Too big to fail” became, through the channel of ideology, the antinomic expression of the free market theory.

The true turbulences with which the idea of crisis has been associated don't belong as much to the eminently irrational behavior of the financial markets, as they do to the attempt of making heard the ambitions of imposing of one ideological vision or the other. From the libertarian over-excitement with regard to the millennial wonders of the market to the most perverse interventionism of the top-down change, almost all variants of political ideology exhibited their exaggerations in the form of promises to bring us out of the crisis. These, though, have been driven only by the cause of maintaining power through the overuse of perverse forms of market control. There is no doubt that the panic induced by the crisis was and continues to be associated with the stretching to the limit of the prevalent positions around the circuits of wealth.

It is worth mentioning that the higher visibility of ideological projections, to the detriment of those economical per se, could represent one proof of the behavior of ideologies by which they must not assume the guilt for starting the crisis. If it can be this way (and it is obvious that all the conditions are met for it to be possible!) the opportunity for maximizing gains cannot be missed by the political ideologies. The costs are supported only by the economy. Certainly this situation points to the fact that in the post-crisis things will still be arranged according to the pre-crisis model.

The most revealing clue of this evolution is the transformation of the appeal for socializing losses into a behavioral leitmotif, as opposed to respecting the laws of the free market game. Thus, the cancerous growth came to be the savior of counter-performance. The dimension above natural limits of some functional structures of the economy (such as banks or strategic enterprises) has become the argument directly derived from the logic of the faith in the infallibility of all that which exceeds normal measure.

“Too big to fail” became, through the channel of ideology, the antinomic expression of the free market theory. That this refrain happens in a place where not so long ago it was considered inconceivable does not seem to raise any worries.

We can find here the well dissimulated goal for which the crisis transforms into an argument against a change in the order of things: the very force which is interested in reproducing the crisis is allowed to be the one tasked with ending the crisis. In fact, the opportunity of maintaining the ideology functional resides in the double possibility at hand: either to prolong the crisis as much as possible, or to prepare the seeds for the comeback of the crisis as fast as possible.

Although it seems like something pertaining to the absurd, we must not be deterred in recognizing that the most valuable specialty of ideologies is to border the absurd. The guaranty of this consequence is the stark option of any ideology for pushing the alternative into the derisory. The solution of an ideology is constructed to be unique and its singularity is unavoidable. The fundamental methodological reductionism of ideologies is especially due to this exclusivism of solutions, the very germinating bed of crises of all kinds, economical ones in particular.

The substratum to this puzzling state of fact resides in the conversion of wealth into the secret ammunition of the weapon of power, which is used to mass-extermine the diversity of solutions. It is an unexpected way of rationalizing human action not only in its economical component, but also in the one belonging to ideas.

The democratic scaffolding often becomes, in times of crisis, so frail against the natural weight of diversity that – in the name of economic rationality – all economic principles are annihilated and the fulgurant values of ideologies are the ones being put to use. The present crisis is the kymographic case of illustrating the triumph of ideological simplification in an absolutist manner, likened to “the end justifies the means”, as such that where the option for the fairness of the market seemed obvious, the option for political correctness manifested itself instead, made to reason against the logic of the market.

The reason for liquidation, offered by the market as a sanctioning of counter-performance, has been nullified by the reason of the non-economically offered liquidity, without parity, as a bonus for performance realized outside the market.

Marin Dinu

Contents

Considerations Regarding the Mix of Anticrisis Fiscal Policies in Romania Ioan Talpoș, Alexandru Avram	5
Women Entrepreneurship in the Western Romania. Research Results and Policy Recommendations Anca Dodescu, Alina Bădulescu, Adriana Giurgiu, Ioana Pop-Cohuț	25
How to Improve Small and Medium-Sized Enterprises Profitability by Practicing an Efficient Human Resources Management Antonio García Sánchez, Dan Popescu, Iulia Chivu, Alina Ciocârlan-Chitucea, Daniela Oana Popescu	49
Time and Causality in the Economic Process – a Critical Approach Based on Consistency Criteria Cristina Tănăsescu, Vasile Brătian, Camelia Oprean	65
The Reform of the National Public Policies Process under the Influence of Europeanization Changes in the Policy-Making in Romania on Institutional and Legislative Level Ani Matei, Tatiana-Camelia Dogaru	75
Re-modeling the Romanian Fiscal Policy under the Terms of the Economic Crisis Aura Gabriela Socol, Dorin Măntescu	111
New Hypothesis on Service Management within the Global World Ion Plumb, Andreea Zamfir	121
Current Economic and Financial Crisis - New Issues or Returning to the Old Problems? Paradigms, Causes, Effects and Solutions Adopted Felix Totir, Ingrid-Mihaela Dragotă	129
Contributions of Agriculture to Economic Fluctuations in Romania Anca Dachin	151
Foreign Direct Investments Expansion – Essential Globalization Factor Cătălin Emilian Huidumac Petrescu, Radu-Marcel Joia, Gheorghe Hurduzeu, Livi Bogdan Vlad	163
Implications of Asymmetric Information in the Real Estate Crisis in US Marta Christina Suci, Luciana Picioruș, Cosmin Ionuț Imbrișcă	173
The Crowding out Effect on the Labor Market in Romania Mihaela Hrisanta Dobre	189

Note: The authors are responsible for the content of their articles and for obtaining necessary permissions.

Text revision:
Gabriela Ochiană
Computerized drawing up:
Nicoleta Bobocea
Cover:
Alexandru Ion
Subscriptions distribution:
Mircea Dinu
Tel./Fax: 021/210.73.10; 021/210.63.07
021/210.63.08

Data base indexation:
Research Papers in Economics (RePEc)
<http://www.ideas.repec.org>
<http://econpapers.repec.org>
Directory of Open Access Journals (DOAJ)
<http://www.doaj.org>
EBSCO Publishing
<http://www.ebscohost.com>
International Consortium for the Advancement
of Academic Publication (ICAAP)
<http://www.icaap.org>
CNCIS B+

www.econometeoreticasiaplicata.ro; www.ectap.ro

Reception of texts: economia.ta@edeconomica.com

ISSN 1841-8678 (Print)
ISSN 1844-0029 (Online)

Considerations Regarding the Mix of Anticrisis Fiscal Policies in Romania

Ioan TALPOȘ

West University of Timișoara
ioan.talpes@rectorat.uvt.ro

Alexandru AVRAM

West University of Timișoara
alex1avram@gmail.com

Abstract. *The last centuries, it has been noticed that the economic activity does not unfold linearly, that the expansion periods are followed by a contraction of the economic activity, that the peak moments cannot be maintained endlessly and that, after recession, a relaunch of the economic activity may occur. The political and economical cycles, emphasized by the last decades, made people talk more about the countercyclical policies and about the behaviour of the politicians seen in strong connection with the behaviour of the voting population.*

To reduce the effects of the current crisis, the state uses fiscal incentives, this representing a combination of public expenses and a reduction of the taxes for the companies and the households which aims at the revival of the economic life, the increase of employment and the recovery of the business environment.

The countercyclical policies are known and applied all over the world, each responsible government choosing those instruments of budget and fiscal policy which best match the concrete possibilities of economy and correspond with its political doctrines. Thus seen the mix of fiscal policies is firstly a political choice, but with a strong impact on the economy of a country.

Keywords: fiscal policies; political and economical cycles; fiscal stimulation; budget deficit; fiscal stabilizers.

JEL Codes: E62, E65.

REL Codes: 8K, 8M.

Introduction

The economic activity is characterised by a unpredictable fluctuating evolution, which can be predicted only by a predictable linear evolution. The random fluctuations are determined by a series of factors with accidental or random action which can be repeated with a certain regularity, but also by unusual events like natural catastrophes or special political and social events (wars, revolutions, large or long term protest actions etc.).

The seasonal fluctuations regularly unfold under the impact of some natural or social causes like the seasons variation, the customs, the traditions or the holidays.

Regardless of the random and seasonal variations, there have been identified a series of cyclic fluctuations determined by factors which are connected to the function of the economic activity, by the interdependencies between its components which are reproduced with a certain regularity and intensity. *“The cyclic fluctuations represent those undulatory forms of movement of the economic activity from a country where the stages of expansion alternate with the decrease and stagnation ones”⁽¹⁾.*

The fact that, under the impact of the economic globalisation, at the same time with the growth of interdependences between the national economies, the macroeconomic cycles have started to be subscribed to a convergence process and by analogy the cycles to engage the regional and global economies through synchronisation, becomes obvious.

The economic cycle represents the succession in time of the regular modifications of the conditions and the results of the economic activity, by identifying four stages:

- *economic expansion*, represented by the increase of the actual GDP;
- *peak*, the point in which the economy uses at a maximum the production capacities, the aggregated request is the highest and the unemployment is close to its natural rate;
- *recession*, the reduction of the economic activity represented through the decrease of the actual GDP, after two consecutive trimesters;
- *depression* represents the point where the aggregated request reaches the lowest level, the unemployment rate is the highest, there is reticence towards investments.

The economic cycles, according to the time horizon to which they refer, are classified as follows:

- long, secular or Kondratieff cycles (after the name of the Russian economist who identified them in 1926);
- the decennial or Juglar cycles;
- short cycles with a duration of six months to three years.

The current crisis, different from all the others, resulted from the alignment of those three cycles at their minimum level, based on a “mathematical delay of six to nine years” (Dinu, 2010, p. 344) at the beginning of a new Kondratieff cycle, when the innovation from a technological and social point of view, specific of the breaks of rhythm which a new Kondratieff cycle brings, was abandoned in the rush for the speculative earnings in the sphere of financial economy.

1. The political and economic cycles

Ever since the middle of the last century, the literature has emphasised the connections between the economic cycles and the political cycles, respectively the manner in which the political calendar, the political agenda of the parties elected, influence through the fiscal, budget and monetary policy measures, the status of some macroeconomic indicators, like the economic growth, the unemployment rate, the budget deficit, the public duty or the inflation rate.

There have been identified two fundamental models of behaviour of politicians which generate two types of political and economic cycles:

- *The opportunist cycles* promoted by the governors who, from the desire to keep their power, adopt various measures of fiscal, budget and monetary policies in order to maximise the chances to be re-elected;
- *The partisan cycles* promoted by parties based on their ideological orientation. Such a left wing party shall act for the reduction of the unemployment, easily assuming an increase of inflation and of some categories of expenses for social insurance, health, pensions. A right wing party shall reduce the taxes through a relaxation of the fiscal policy and shall reduce the expenses with the social insurance. The left wing politicians as well as the right wing ones shall aim at obtaining the economic increase, but if the left wing aims at this objective through the increase of the global demand, the right wing is interested in the increase of the aggregated offer. Thus, the alternation at the government engages political and economic cycles which are completely different.

We should not see the things only through the behaviour of the elected politicians, because an analysis of the voters' behaviour is also necessary, being known the ability of the politicians to adapt to the exigencies of the voters. Thus, there have been identified two types of behaviour of the voters:

- The naive voters - who decide at an emotional level, with a short memory, sensitive to “election charity” offered several months before the elections, who can unfortunately be “bribed” around the elections;
- The sophisticated voters - who decide at a rational level, able to evaluate the behaviour of the political decision makers through the means of the declared objectives and the abilities to translate the promises into practice.

By comparing the behaviour of politicians with the behaviour of the voters, the result is a matrix of political and economic cycles, presented in Table 1:

Table 1

The matrix of the political and economic cycles			
		The politicians' behaviour	
The behaviour of the voters		Opportunist	Partisan
	Emotional	The political and economic opportunist - traditional cycle	The political and economic partisan - traditional cycle
	Rational	The political and economic opportunist - rational cycle	The political and economic partisan - rational cycle

Source: Adaptation after Nicolae – Marius Jula – *Ciclurile politico economice în România*, în Revista Ecologia Universitaria, anul I, nr. 1/2009, p. 61.

Anthony Downs has noticed that the elected parties “formulated policies in order to win the elections, instead of winning the elections in order to formulate policies”⁽²⁾ this being a proof of the opportunism in the machiavellic meaning of the word. It is the moment when the left wing parties abandon the doctrine and pass to liberal measures, while the right wing parties find themselves interested in the raising of salaries and pensions, several months before the elections, from the obvious desire of winning at all costs.

Thus, the political and economic opportunist - traditional cycle, identified in 1975 by Nordhaus, starts from the premise that the result of the elections shall depend on the macroeconomic performances from the last part of the mandate and when the opportunist political decision maker wishes for an inflation - unemployment cycle corresponding to its mandate length to record a boom before elections. This behaviour contains a dose of assumed political cynicism because the decision maker either shall win the elections and shall have to deal with the recession that shall occur, or shall lose the election and shall watch from the opposition as the new governors shall fight the recession.

The political and economic rational opportunist cycles, emphasised by Cukierman and Meltzer in 1986, show a capacity of adaptation of the politicians' opportunism in front of a more informed, more sophisticated and,

thus, more exigent public. In this situation, although the inflation rises before the elections, the effects of the economic cycle do not have the same amplitude because the public, being informed, knows the side effects of the medication prescribed by the governors.

The model of the political and economic traditional partisan cycles, elaborated by Hibbs, starts from the simplification of the political scene in left wing and right wing parties, each acting within the predictable doctrinal limits.

With a less educated public, the left wing parties, as well as the right wing ones shall follow an economic cycle that records an economic boom before the elections. For this the traditional left wing parties shall protect the interests of the workers, shall try to reduce the unemployment rate and shall leave behind important budget deficits and a high inflation. The right wing parties shall reduce the taxes, shall encourage the economic growth by increasing the aggregated offer, provoking an economic boom at the end of the mandate.

The political and economic rational partisan cycle, presented in the works of Alessina starting with 1987, reflects a political and economic system in which the right and left wing parties respect their ideological orientations, and the voters are informed, rational, capable of analysing prospectively the social and economic realities. In this case the voters shall elect the party which is expected to bring the maximum of utility through the policies it shall promote.

By reuniting the partisan model with the opportunist one, Frey and Schneider, in 1978, developed a model they called “dependent on the context”. Thus, starting from the idea that the political manipulation has important costs and risks when they enjoy the popularity, the politicians shall not consider the populist measures necessary, shall keep the ideological accuracy and shall not produce opportunism proofs. On the contrary, when the popularity is decreasing, the politicians shall be drawn by the active opportunist and/or partisan policies in order to win the elections.

The political and budget cycles

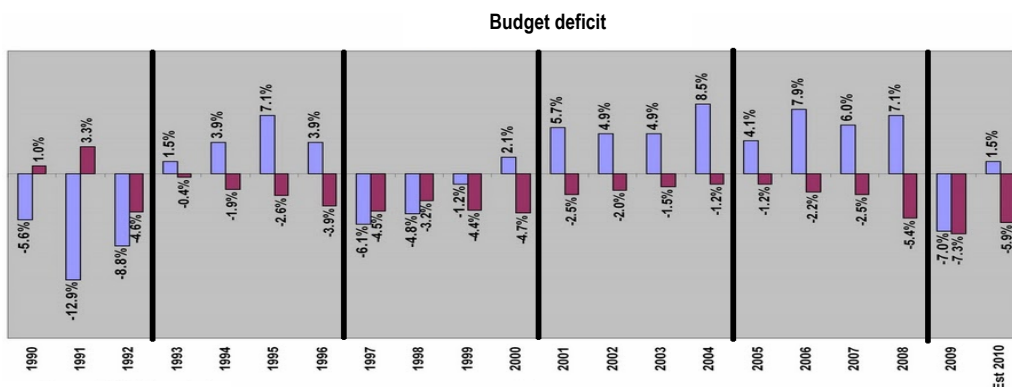
It is obvious that the fiscal and budget policies are at the disposal of the governors and that they can be used in order to influence the result of the elections. For Romania, the alternation to the government has produced starting with 1996, when PSD lost the government as well as the presidency in favour of the alliance run by Democratic Convention.

Table 2

The rate of inflation 1990 - 2009

1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
170.20%	210.40%	256.10%	136.70%	32.30%	38.80%	154.80%	154.80%	40.60%	45.80%
2,000	2001	2002	2003	2004	2005	2006	2007	2008	2009
45.70%	34.50%	22.50%	15.30%	11.90%	8.60%	4.87%	6.57%	6.30%	4.74%

Source: NBR.



Source: NBR. Eurostat.

Figure 1. The evolution of GDP and of the budget deficit, 1990-2009

In 1996, PSD lost the elections where they applied the traditional partisan policies represented by the increase of the budget deficit during the electoral year, after a certain stability during the second part of the mandate.

The government run by Mugur Isarescu, independent from a political point of view, after during the pre-electoral year it reduced the budget deficit under 3% from the GDP, it had to make another series of concessions, represented by the increase of the budget deficit during the electoral year 2000 to 4.7% from the GDP, and despite all this it lost the elections.

The year 2004 is the first electoral year when the government reduces the budget deficit, compared to the previous year, the lack of opportunism being awarded by the voters with the loss of the elections by PSD.

In 2008, the liberals, running a minority government, used a traditional opportunist cycles, represented by pension and salary increases, as well as the one of the budget deficit to 5.4% from the GDP, compared to 2.5% recorded the previous year. They lost the elections and the new government formed in 2009 obtained a majority through the post-electoral coalition PDL + PSD. Unfortunately, together with the continuance of the president's mandate, 2009

was an electoral year as well, the presidential elections found a PDL minority government which applied traditional opportunist policies, hardly managing to impose their candidate to the presidency with the price of a budget deficit of 7.3% from the GDP, which forced the government in 2010 to take measures of decreasing the salaries of the people working in the state system with 25%, or the increase of the VAT with 5 percentage points, which would affect the popularity.

The historic period analysed, although short, may lead to the following conclusions:

- The opportunist policies, although they implied high costs, lead to the loss of the elections in 1996, 2000, 2004 and 2008. The only time when the elections were won based on them was in 2009, but the stake was only the election of the president.
- The parties seem to give up very easily the ideological dimension of the policies which they promote, being very difficult to be recognised by the European political families to which they are affiliated.
- The voters take decisions based on emotional motivations rather than rational ones, the election campaigns contain all sorts of scandals which fill up the electoral agenda instead of serious debates for a prospective, rational educated public.
- Every time the new governors brought to the discussion the “heavy legacy” of the previous government, during the first part of the mandate, and during the last part they would make sure that they would leave the same type of legacy.

The political and monetary cycles

The specific approaches of the political and economic rational partisan cycles model are formalised in the model Allesina-Sachs⁽³⁾, starting from the hypothesis that there are only two political parties, one (A) with left wing views, favourable to the increase of the employment, and another one (B) with right wing views, which has a greater respect for the stability of the prices. The model take into account the following hypotheses:

- The monetary policy is discretionary and predictable;
- The public, although it knows the objectives aimed at by both parties, does not know the level of the increase index of the prices during the post-electoral period;
- The public anticipates the rate of inflation which can be calculated as a weighted arithmetical average of the rates of inflation anticipated by the two parties, the weighting being done according to the probability of winning the elections by each party. For example, if party A aims at

an inflation of 10% a year and has 40% chances to win the elections according to the last polls, and party B aims at an inflation of 6% a year and has 60% chances of winning the elections, then the anticipated inflation is of 7.6%.

$$\text{Anticipated inflation} = (10 \times 40 + 6 \times 60) / 100 = 7.60\%$$

- After the elections, the economy shall feel the difference between the inflation that shall be turned into reality by the winning party and the anticipated inflation. In our case, if party A wins the elections, the respective inflation shall be higher than 2.4 percentage points compared to the anticipated inflation, and if party B wins the elections, the effective inflation shall be inferior with 1.6 percentage points. Drazen and Eslava criticize the premises of the Alessina-Sachs model, because it starts from the “crucial assumption that the politician in his fight for the re-election disposes of the control of the monetary policy, assumption which is not in concordance with the independence of the central bank.”⁽⁴⁾ However, Silviu Cerna draws the attention on the fact that the “legal independence does not impede the occult influence of the politicians” who “are more than skilled in order not to find the ways to exercise the influence on the regulatory centre of the currency quantity, even if for this they must resort to other ways.”⁽⁵⁾

In conclusion, the effort of the politicians to manipulate the economy through the means of the fiscal policies than the use of the currency policies, under the control of the central bank which enjoys a certain degree of independence related to the executive power, is much more obvious. If we refer to post-communist Romania, it is clear that the political parties have at least two reasons to give up the opportunism, the populism and the last minute manoeuvres to win the elections:

1. Not only they do not guarantee the success, but we could say that on the contrary in proportion of 80% they lead to the loss of the elections (the last 14 years).
2. The public, although it does not elevate to the level of the rational or prospective educated public, receives without obligations the electoral charity and does not vote with the power.

If we take into account the delay of the electoral cycles through the separation of the legislative elections from the presidential ones and shortening of the electoral and political cycles (elections in 2008, 2009, 2012, 2014, 2016, 2019 etc.), it would be normal that the political parties gave up opportunism and their aggravated form of populism, the references regarding the heavy

legacy and they should concentrate on the coherent governing programs in concordance with their doctrine and the interests represented by them.

2. The mix of anti-crisis fiscal policies

The current economic and financial crisis has a strong effect on public finances, meaning that the reduction in economic activity has led to a decrease in budget revenues, to the increase of the deficits and of the public debt. In addition, the support provided to banks with problems in major industrialized countries, resulted in pumping liquidity into the system but also the doubtful acquisition of assets, will eventually be found in the public debt as well.

Countercyclical fiscal policies

Countercyclical policies developed “as a better understanding of the interdependence of economies and the increased information on economic developments” (Băbăiță et al., 1999, p. 209) and consist of a series of macroeconomic measures taken to mitigate the impact on economic recovery in the downward phase of the economic cycle respectively adjusting the amplitude of the disturbing cyclic phenomena.

Countercyclical policies based on influencing the global demand use the Keynesian concept that business fluctuations are due primarily to the unwanted gap between global demand and aggregate supply. In this regard fiscal policy acts on the economic situation in changing the level of taxation to stimulate or stop the investment and production. Thus the extended economic boom period of increased taxation leads to a reduction in the disposable income which has the effect of reducing economic growth, while in times of recession a tax reduction makes the disposable income increase and on this basis a stimulation of the aggregate demand takes place.

The public expenses can act on the global demand through the state acquisitions, investments in the infrastructure, social assistance etc. As a consequence, during the recession the budget expenses are increased risking the budget deficit which can be absorbed in the expansion stage, once the budget expenses are reduced.

Countercyclical policies based on stimulating aggregate supply are designed to stimulate producers by providing material and fiscal benefits, granting subventions with an impact on volume, structure and quality of goods and services.

There is a link between increased tax and tax productivity revealed the Laffer curve, meaning that we expect an increase in tax revenue as the tax increases only up to a certain level, after which the productivity starts to decrease whatever the level of tax increase (Figure 2).

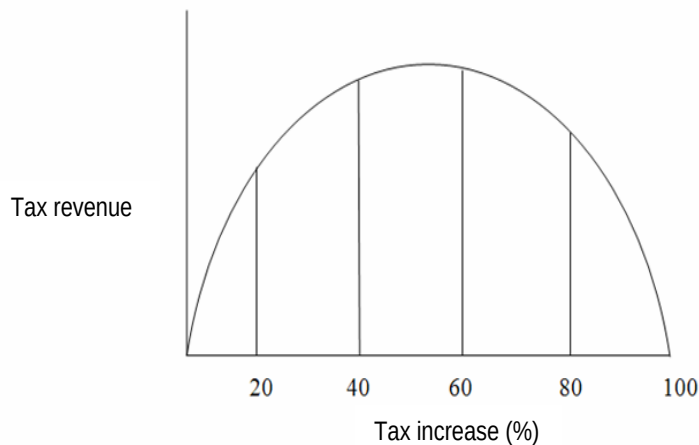


Figure 2. *The Laffer Curve*

Empirical studies show that over 60% share of any increase in taxation leads to lowering the volume of revenue.

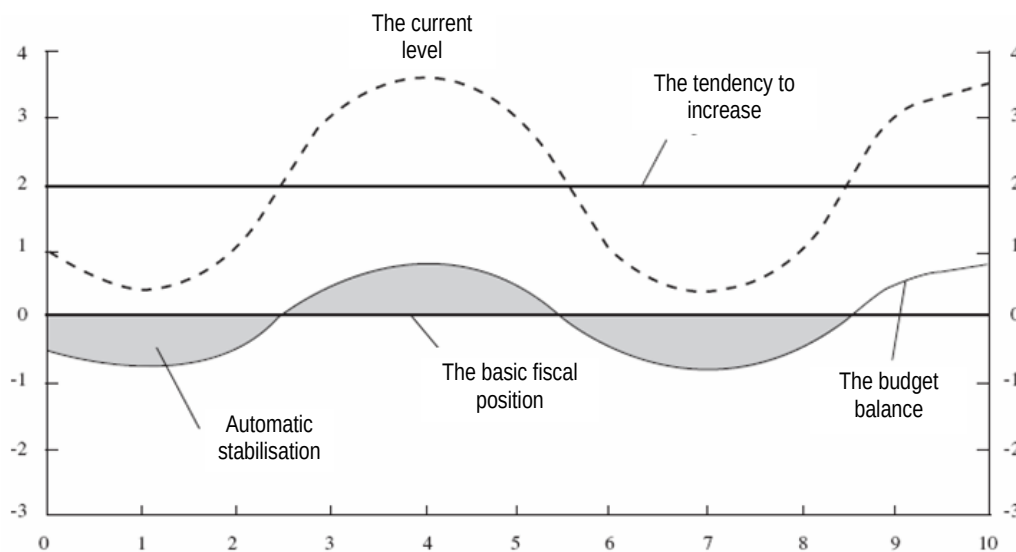
Fiscal stabilizers

The traditional concept of economic automatism, derived from the liberal conception, is not too far from the principle of Adam Smith's invisible hand, when using fiscal policy as a technique for stabilizing the economy. The observation is valid because in periods of economic boom the tax revenues and fees increase as well, while in periods of recession with lower incomes both the consumption and income to the state budget are lower, especially when the taxation is applied in proportional percentage quotas, as it is the case of the flat tax in our country. Government spending also have a stabilizing influence on the economy, especially when they are set as a percentage of GDP for some areas (e.g. a fixed percentage quota of 6% for education), and they could be countercyclical as any social benefits for unemployment that increase during recession periods leading to increased aggregate demand. *“There is an automatic stabilizer included in the budget balance. Surpluses are reduced or turned into deficits and deficits are increasing during a recession when tax revenues fall and welfare costs increase. This helps maintain the aggregate demand. The things happen exactly the other way around during the period of economic growth”.*⁽⁶⁾

According to Albert Hart (1956, p. 425) the automatic stabilizers are recognised following the criteria:

- lead the budget to surplus in the growth phase of economic cycle and the deficit in case of recession,

- decrease the cash stock of the population in times of prosperity and increase it in times of recession;
- tend to increase public demand for cash in times of prosperity and to reduce it in the periods of decline;
- act without waiting for decisions makers.



Source: www.bce.com.

Figure 3. *The action of the automatic stabilizers on the economic cycle*

After Norman Keyser (1956, pp. 422-441) automatic stabilizers join in the mix of stabilization policies other types of stabilizers such as:

- flexible stabilizers, allowing changes in tax rates depending on the signals coming from the economy;
- discretionary stabilization policies pursued by the agencies, boards or body vested with discretion;
- institutional stabilizers such as employers' associations, trade union confederations, associations.

The Pact for Stability and Growth ensures the corresponding principles for the fiscal policy conduct in the Euro area. These principles specify especially the manner of adjustment of the structural budget balance to the fulfilment of the medium term objective consisting of the “surplus position or almost zero”, whose level is specific to each country. These objectives on a medium term have been set at a certain level which ensures the fiscal

sustainability, as well as a sufficient margin to act in order to avoid exceeding the reference level of 3% from GDP in case of normal economic fluctuations. Indeed, the countries which have achieved their medium term objectives are free to allow the automatic stabilizers to operate and contribute to the mitigation of the economic cycle. The more countries in the Euro area are in such a position, the more freedom of action for the automatic stabilizers at the aggregate level of the Euro area, contributing to the good functioning of UEM.

The advantages which come from the automatic stabilizers operation are known. In contrast to the discretionary measures, these are not affected by the time delays in the decisional process. Also, their action is not determined by the political factor, and their economic impact is adjusted according to the economic cycle. In addition, experience of previous decades recommends a prudent conduct.

Recent experience supports the advantage of automatic stabilizers, but also show that budget spending levels higher than 40% of GDP no longer generate additional benefits in terms of stabilization. The automatic stabilizers operation on the part of the expenses can be interpreted in a wrong way as an argument for exceeding the public expenses limits, situation which can be difficultly reversed. Finally, there are significant uncertainties regarding the measurement of GDP deviations from its potential level and therefore the extent to which automatic stabilizers already affect the economy.

In conclusion, the euro zone countries with significant budget deficits and the still high share of public debt must focus on building requirements set by the Stability and Growth Pact to be able to meet medium-term objectives. Achieving these goals will enable the free and full automatic stabilizers in these countries, thus contributing to smoothing the business cycle. Thus, countries must resist the temptation to resort to fiscal policy to fine-tuning the economy in the short-term, as this could adversely affect growth potential and long-term fiscal sustainability. In this respect, the euro area countries should take into account the lessons of the '70 and have solid and prudent fiscal policies of a consistent manner. Finally, a discretionary fiscal stimulus may generate also inflationary pressures. In a time when inflation in the euro area records high levels, the additional stimulus from fiscal policy will increase the risks to price stability. Even small fiscal stimulus could have lasting negative effects if they contribute to increased inflation expectations.

Fiscal stimulation measures

The current financial and economic crisis, through its virulence, has cancelled the ability of the automatic stabilizers to answer, as they have for the last 50 years, to the fluctuations which affected the world economy, reason for

which the more affected states have already passed to large fiscal stimulation programs.

Fiscal stimulus is a combination of public spending and tax cuts for companies and households seeking recovery of economic activity, raising employment and improvement of the business environment.

Romania entered the recession in the first part of 2009, after recording in 2008 the greatest economic growth, which was largely reduced in the last trimester. The main data are the ones presented in Table 3 from which an increase of the share of the budget deficit in GDP results, as well as the public debt.

Table 5

**The evolution of the economic growth, of the budget deficit
and of the public debt in Romania**

Year/ Indicator	2005 (%)	2006 (%)	2007 (%)	2008 (%)	2009 (%)
Economic growth	4.2	7.9	6.3	7.9	-8.0
The budget deficit in GDP	0.8	1.7	2.4	-5.4	-9.2
The public debt in GDP	20.4	18.5	16.5	20.5	28

Source: Eurostat, Wikipedia.

If in 2008, it was believed that Romania would remain an oasis of prosperity and that it would not be affected by the crisis, the first months of 2009 lead to an attitude change and as when a person who feels ill goes to the doctor, the government went to the IMF, which acted quickly and professionally.

The main provisions of the Agreement with the IMF are:

- Setting some trimester performance criteria for the budget deficit;
- The Ministry of Public Finances shall provide on a monthly basis data for the evaluation of the budget situation, including the external net finances, the credits from the internal financial system, the advance payments from the European Funds, the applications for European funds of the Government;
- Providing the Ministry of Finance and the Ministry of Labour, but also other institutions, all data on public companies in monitoring at the beginning of the agreement with the international institution and sanctions for failure to fulfil the targets set;
- Setting an indicative target for the rate of inflation;
- If the annual inflation exceeds the ranges, the NBR will discuss with IMF experts for evaluation. If consumer prices vary by more than two percentage points from the central level, then the authorities will have

consultations with the Fund on measures to be adopted, without which the agreement can not continue;

- NBR should prompt additional capital requirements for commercial banks based on stress tests in order to ensure that the solvency ratio of each institution will be maintained above 10%, level two percentage points above the legal minimum in force, 8%;
- Stress tests will be applied to all banks that have a market share of the assets over 1%, and smaller credit institutions, selected based on credit quality and portfolio vulnerability, the evolution of the non-performing loans in the last year and the current solvency rate;
- The central bank will consider two scenarios for stress tests, that the macroeconomic framework envisaged in the agreement with IMF, but also a much more pessimistic variant in terms of growth and exchange rate, and the latest data available related to the financial statements of banks and companies to forecast the evolution of banks' balance sheets in the two scenarios. NBR will use its own macroeconomic model for determining the development of other macro indicators;
- Analysis of stress test results and capital needs assessment will be made in consultation with IMF experts;
- The net international reserves of NBR may decrease in a controllable manner.

Following the Agreement with IMF, the Government chose to reduce the salaries of the people working for the state system by promoting a unique law of salaries in 2009, followed by a reduction with 25% of the salaries in the second part of 2010, at the same time with the increase with five percentage points of the VAT which thus reached the level of 24%.

3. Threats and risks

The main threat is connected to the accumulation of deficits which shall lead to the increase of the public debt through the loans that the state contracts from the resident economic agents or from financial institutions from abroad.

“As the deficits are increasing the national debt is increasing; such a process cannot unfold forever in reality. In the end the public debt shadows completely or replaces other assets and the crowding out phenomenon becomes so spread that the public has to expect an action to balance the budget. This action would involve inflation, special taxes or reduction in the government expenses” (Dornbusch, Fishcher, 1997, p. 469).

According to the currency theory, the increase of the governmental expenses determines the partial or even the total elimination of the private

expenses. When the expenses with the interests afferent to the public debt service reach a significant level, the premises of the occurrence of the crowding out phenomenon are created, moment when the fiscal policy must be correlated with the monetary policy in order for the real economy to have access to loans.

Commenting the policy mix from 1964-1965, when the United States of America came out of the recession through tax reductions and taxes combined with an expansionist monetary policy (interests reductions), Arthur Okun (1970, p. 59) makes the following comments: *"the monetary policy could not have been able to accelerate the rhythm of the economy on its own, it offered economy a good set of wheels, but the fiscal policy was the true motor of the growth."* It is clear that, notwithstanding the principle of interdependency among central banks, a correlation of the efforts is necessary from the part of the persons responsible with the economic policies from the government, as well as of the authorities responsible with the application of the monetary policies. Only the coherence of these policies could ensure the management of the public debt after overcoming the current economic and financial crisis.

The public debt has already reached threatening levels in the United States of America, \$10,025 billions (over 70% of GDP), France 1,428 billion Euro (74% of GDP), Germany 1.706 billion Euro (65% of GDP), and other countries exceed a lot more the level of the public debt of 60% of GDP set forth by the Treaty of Maastricht, countries like Belgium, Italy and Greece having the public debt level over 100% of GDP.

The public debt of Romania, still far from the 60% level, set forth by the Treaty of Maastricht, is situated on an increasing trend, without this increase to turn into the development of the infrastructure that is well outdated. The development of the infrastructure, itself an avanpost of the anticrisis policies, would justify a temporary increase in the public debt. Unfortunately, the worst choice would be the one to increase the public debt through the coverage of the pensions and wages payments in the unproductive sectors.

Romania's public debt is now 138.8 billion lei per capita which means about 6,609 lei, approximately 1,570 Euro, but related to the number of employees it means about 30,844 lei, approximately 7,340 Euro, that is the average salary in three years.

"The national debt creates a burden on the future generations through the reduction of the capital stock. This would mean that the government that records a deficit and creates an even larger debt, throws a part of the current governmental expenses burden on the future generations." (Dornbusch, Fishcher, 1997, p. 473). This is worth discussing because our country has not taken into account the problem of the criteria of fairness between generations yet, being very likely to find out that the youth of today inherits a huge debt

without anyone to identify object of that debt (motorway network, health system performance, modern education system, modern transportation means, etc.).

Another threat is the low degree of collection of the budget incomes in the GDP (28.8%) compared to the average of the European Union 27 (40.5% from the GDP). It is a modest level, Ireland, Spain, Portugal being placed under this threshold, and the majority of the Western countries are above it (the peaks being reached by Denmark, Sweden, Belgium, France and Austria). The low level of the GDP, as well as the share of the revenues from taxes and fees in the GDP, make Romania rank one of the last places in Europe and in the absolute dimensions of the fiscal budget revenues. Thus, in 2008 and 2009, these were, in our country, of almost 40 billion EUR, approximately the same as in Hungary (a country with a twice lower number of inhabitants).

Another threat, reflected in the CEB Report from June 2009, is related to the ageing process of the population and the budgetary expenses for the pension fund coverage. The ageing phenomenon of the population shall produce long term important effects, the European average of the expenses with the pensions in GDP shall reach 12.5% in 2060, some countries like Greece and Luxembourg shall exceed 24% from the GDP while in Latvia and Estonia it shall be 5% from the GDP. Romania shall situate over the European average with 15.8% from the GDP for the pensions payment.

The measures announced recently by the Government of reduction of the salaries with 25% and of the pensions with 15% implies a series of risks generated by the decrease of the aggregated demand and of the consumption, with an effect on the reduction of the work places, of the increase of social allowances, of the reduction of the budget incomes (salary tax, income tax, fees and VAT).

Such austerity measures are criticised by a series of specialists like Joseph Stiglitz in an article recently published in Le Monde *"Today, Europe wants a coordinated plan of austerity. If it shall continue on this road, it reaches disaster. We know, after the Great Depression of the 30s, that such a thing should not be done. Europe needs solidarity, empathy, not austerity, which leads to the increase of unemployment and to the accentuation of the depression. In the USA, when one of the states is in difficulty, all the others feel involved. We are all in the same boat. The viability of the European project is threatened firstly by the lack of solidarity"*.⁽⁷⁾

At the same time we should not avoid the real problem, that of the expenses with personnel which exceed the possibilities of the economy and at the same time the real needs of an efficient administration. The number of employees from the public administration has risen from 88,000 in 1990 to 155,000 in 2005 and reached the number of 227,400 on Dec. 31, 2009.

Conclusions

Already compared with the Great Depression of 1929-1933, the current international financial crisis has forced authorities to rethink the mix of fiscal policy crisis. If a few years ago the IMF and ECB recommended the use of automatic fiscal stabilizers and publicly condemned the “fiscal activism” and especially tax incentives through calls to a policy of maintaining budgetary balance and control of the public debt, now grant loans and support recovery programs adopted by the national authorities.

The economies of countries have begun to revive, recording slight increases in the last quarter, with unprecedented price growth of public debt.

Romania, which has entered the crisis later, proves the reality according to which the inactivity has its costs, which may increase debt even without granting tax incentives and without beginning a broad program of investment and infrastructure.

Notwithstanding the independence of the National Central Bank related to the executive power, a coherence of the monetary and fiscal policies in times of crisis is necessary.

The activist policies are recommended during this period for the monetary authorities, as well as for the executive power.

The set of measures taken by the authorities in Romania surprises through the lack of coherence which translates into a poor efficiency and through the continuous suffering and the increase of the social costs afferent to the overcoming of the crisis. A picture of the measures taken through the means of a matrix of the type “expansionist policies - restrictive policies” leads us to the conclusion that the two policies are not convergent.

Table 6

Measures of fiscal and monetary policy

	Expansionist policies	Restrictive policies
Monetary policy measures	The reduction of the interest of monetary policy	
	The reduction of the level of the compulsory minimum reserve	
	The expansion of the loan	
Fiscal policy measures		Tax increase
		The reduction of the state employees' salaries with 25%
		The increase of the VAT from 19% to 24%

At the level of the political class, a consensus is necessary in order to give up the populist practices to influence the voters at the end of the mandate because the political and economic traditional opportunist cycle applied in our country after 1990 had as effects the increase of the budget deficit in the electoral years which reflected on the economic activity during the post-electoral period.

At the same time, an increase at the level of the public information, an aggregation of the civil society which ensures a passing from the naive voters who decide on an emotional level, to more sophisticated voters who decide rationally, able to evaluate the further behaviour of the political decision makers, through the means of the declared objectives and of the capacity of translating into practice of the electoral promises.

A first step on the line of the responsibility of the political class in terms of taxation, but also of increase of the degree of public information, constitutes the recent adoption (April 2010) of the Law of Budget and Fiscal Responsibility.

The law has as object of regulation the procedures of elaboration of the multiannual budgets, setting the limits regarding the budget rectifications performed during the year, the fiscal rules regarding the total expenses, the expenses with the personnel and the budget deficit, but also the constitution of the Fiscal Council.

By law, the political party leaders may request the prime minister or the Fiscal Council the calculation of the financial impact of the proposed and publicly announced policies. The electoral promises shall have to be accompanied by a detailed description of the proposed policies as well as by a calculation of the financial impact.

The Fiscal Council, as a consultative body in terms of taxation, budget and macroeconomic projections of the government, shall check the data centralised by the relevant institutions being formed of five persons appointed by the Romanian Academy, NDR, ASE Bucharest, the Romanian Banking Institute and the Romanian Association of Banks.

The main threat is connected to the accumulation of budget deficits which shall render the public debt very difficult to manage. The Public debt of Romania still far from the level of 60% from GDP stipulated in the Stability Pact, assumed through the Treaty from Maastricht, has increased though very rapidly in the last two years when it almost doubled.

For Romania, the real problem remains the low degree of collection of the budget revenues from the GDP (28.8%) compared to the European Union average 27 (40.5% from GDP), without the encouraging prognoses for the current year of for the following years to exceed 32% from the GDP.

A rethinking of the unique share is necessary because the efficiency of this fiscal policy is not as higher as in the beginning when it lead to the increase of the budget revenues from 17 billion EUR before the unique share application to 22.5 billion EUR in 2005, and in 2009 it decreased the degree of collection related to 2008.

Together with the sustainability of the public debt, another strong threat is the degree of ageing of the population and the budget transfers related to the covering of the pensions funds. All these risks and threats lead to the idea of increasing the fiscal responsibilities, the adoption of a medium and long-term vision on the budget balance and a convergence of the monetary and fiscal policies.

Notes

- (1) According to Duță Alexandrina, Cismaș Laura (coord.) – *Macroeconomie*, Editura Universitatea de Vest, Timișoara, 2006, p. 111.
- (2) See Anthony Downs, *An Economic Theory of Democracy*, Harper & Row Publishing House, New York, 1957, p. 28.
- (3) Se Allesino A., Sachs I., *Political Parties and the Business Cycle in the US 1948–1984* Money, Credit and Banking, Vol. 20, 1988, pp. 63-82.
- (4) See Drazen A., Eslava M., *The Political Business Cycle in Columbia on the National and Regional Level*. www.econpapers.repec.org/paper/co/001022001222.
- (5) See Cerna S., *Banca Centrală – Credibilitate și Independență*, Ed. Sedona, Timișoara, 2002, p. 48.
- (6) According to The Economist. “Ghidul indicatorilor economici”, Ed. Teora, București, 2001, p. 77.
- (7) See J. Stiglitz, *Le monde*, 22.05.2010.

References

- Băbăiță, I., Silași, G., Duță, Alexandrina (1999). *Macroeconomia*, Editura Orizonturi Universitare, Timișoara
- Dăianu, D. (2009). *Capitalismul încotro*, Editura Polirom, Iași
- Dinu, M. (2010). *Economia de dicționar. Exerciții de îndemânare epistemică*, Editura Economică, București
- Dornbusch, R., Fischer, S. (1997). *Macroeconomia*, Editura Sedona, Timișoara
- Hart, A. (1956). *Money, Debt and Economic Activity*, Prentice Hall, New York

- Keynes, J.M. (2009). *Teoria generală a folosirii mâinii de lucru, a dobânzii și a banilor*, Editura Publica, București
- Norman, K.F., „The Development of the Concept of Automatic Stabilizers”, *The Journal of Finance*, Vol. 11, Nr. 4, 1956
- Okun, A. (1970). *The political economy of prosperity*, Editura Norton, New York
- Talpoș, I., Enache, C. (2001). *Fiscalitate aplicată*, Editura Orizonturi Universitare, Timișoara
- *** European Central Bank – Monthly bulletin June 2009
- *** Banca Națională a României – Comunicat Lunar Iulie 2009
- *** European Commission – Economic Recovery Packages in EU Member States

Women Entrepreneurship in the Western Romania. Research Results and Policy Recommendations

Anca DODESCU

University of Oradea
adodescu@uoradea.ro

Alina BĂDULESCU

University of Oradea
abadulescu@uoradea.ro

Adriana GIURGIU

University of Oradea
agiurgiu@uoradea.ro

Ioana POP-COHUȚ

University of Oradea
ipop@uoradea.ro

Abstract. *Starting from the results of the empirical, quantitative, and qualitative research performed in the AntrES project, between 5.01.2009 – 4.01.2011, in the Western Romania, referring to the existence of obvious gender gaps regarding the start up of new businesses and the ownership of the businesses; the characteristics, the motivations, and the difficulties of the women entrepreneurs and potentially enterprising women; the successful women entrepreneurs' perceptions on the sex equality in the field of entrepreneurship – this paper presents arguments and recommendations of specific policies meant to support the potential women entrepreneurship in Romania, as an engine to overcome the economic crisis and to reconnect to the regional development mechanism facilitated by the European Union's regional policy.*

Keywords: women entrepreneurship; gender gaps; new businesses start-up; public policies; regional development.

JEL Codes: B54, H81, M13, M21, R11, R28, R53, R58.

REL Codes: 13C, 14D, 14 K, 16H, 18F, 18G, 20J.

Introduction

A famous article published in the no less famous *The Economist* – “*A guide to womenomics. The future of the world economy lies increasingly in women hand*”, started with Henry Higgins’s question from “My Fair Lady” – “*Why can’t a woman be more like a man*” and foresaw that the future generations would ask themselves - “*Why can’t a man be more like a woman?*”, arguing with statistical data relevant for the period 1920-2005, that women – “the most underused resource of world economy”, are now “the most powerful engine of global growth” (*The Economist*, 2006)⁽¹⁾.

From the opening operated in the first notable article tackling the subject – “*The Entrepreneurship – A New Women Frontier*” (Schwartz, 1976), the literature consecrated to the women entrepreneurship (Brush, 1997, 2006, Brush et al., 2004, Casson et al., 2006, Bruni et al., 2008, Parker, 2009), still poor and still far from constructing appropriate theories, is rather preoccupied with “*the stereotype of the business woman*” – constructed around “less” as compared to men – less capable, less qualified, less trained, less brave, less rapid, less endowed with capital or less in condition to obtain capital etc., than to encourage the women entrepreneurship; therefore, in this context, the above conclusion sees, at least, surprising. Moreover, in the specifically Romanian context, the support of the women entrepreneurship appears, wrongly, as a minor, frivolous, and lacking importance problem as compared to the priorities and the imperatives of the crisis.

After implementing the AntrES project and the conclusions of the research activities facilitated by this project, we strongly state that the potential of the women entrepreneurship an engine to overcome the economic crisis and to get out of poverty of the families and communities in the Western Romania, is beyond debate, not only under-evaluated but also neglected at the level of national and regional public strategies and policies in Romania, excepting the support that comes from the European Union.

Beyond the formal commitment to the strategic objectives of the European Union’s occupational policy and the declarative assumption of the responsibility to access structural funds, the national and regional public strategies and policies must internalize the interest and the preoccupation to support the business initiated and developed by women.

Why? First of all, for the women are more exposed, in conditions of crisis, to the risk of losing their job, especially in the public sector and, especially, in the current conditions of budgetary austerity and the self-employment alternative represents a solution that should not be neglected; second of all, for there are considerable gender gaps regarding the start up of

new businesses and the ownership of the businesses in the Western Romania; in the third place, for the support of the potential of the women entrepreneurs and the potentially enterprising women in the Western Romania, much more preoccupied than men to spend what they earn on food, education, and ensuring the health of their children and family⁽²⁾, could lead, through appropriate strategies and policies, to a more rapid “way out of the crisis”, to resume the economic crisis to the benefit of the society and to reconnect to the regional development mechanism facilitated by the European Union’s regional policy.

Arguments to support those mentioned above and premises to capitalize some recommendations of strategies and policies issued from the results of the empirical, qualitative, and qualitative research, performed in the AntrES project.

The AntrES project and the implementation strategy

The project “*Entrepreneurship and the Equality of Chances. An Inter-regional Model of Women School of Entrepreneurship*” (acronym AntrES) had as a general objective to promote the equality of chances in the field of entrepreneurship, by stimulating the involvement of women, generally, of women from the rural areas, especially, in starting up and developing their own businesses in the context of the sustainable development of the communities in the counties situated along the Western border of Romania (the counties Maramureş, Satu Mare, Bihor, Arad, Timiş, Caraş-Severin).

The AntrES project addressed a number of 1,800 women from the six counties situated along the Western border of Romania, grouped in three target groups: *288 women from the urban areas, SMEs managers wishing to develop their business; 1,440 women from the urban and rural areas wishing to start up their own business; 72 women, students in Economics in the last year, who have been trained to become trainers in the entrepreneurial field and had a job as rural coordinators, in the project.*

From the point of view of the implementation strategy, all the activities of the project were performed “in the mirror”, in the six counties of the implementation area had in view, that is “cascade-like”, at the territorial, local, and rural level. The first six months were devoted to preparing the Entrepreneurial School for Women, that is to finding the course and application books of the two training modules: *The Start up of the Business* and *The Development of the Business*, to carrying out the economic diagnoses of the counties involved, to constructing the data base and to drawing up the specific procedures for the selection and monitoring of the target groups; also, in these six months six territorial centres for women were established in the partner

universities in the county seats on the Western border of Romania, 24 AntrES local centres and 72 rural centres, as a result of signing partnership agreements with the local public administration. Starting with the seventh month, for a period of six months, the training activities took place in the training centres within the territorial centres of the Entrepreneurial School, following the two modules – *The Start up of the Business* and *The Development of the Business*, two themes a month being scheduled: on Fridays – 6 hours of course and on Saturdays – 6 hours of applications. The courses were delivered by the territorial coordinators, assisted by the local coordinators. To each course, according to the theme, an outside expert was invited. The applications were presented by the local coordinators, each with a group, using the *Action Learning* method, encouraging the women to talk freely and practically, with the help of the local coordinator as a facilitator of the learning process. At the end of the training activity, there was the assessment, in the contest "My business plan", the awards consisting in the minimum amounts of money necessary to effectively start up a firm, that is to implement the business idea. Starting with the thirteenth month, for six months, the training in the local centres took place, made by the local coordinators assisted by the rural coordinators, replying the model learned in the territorial centres. From the nineteenth month, for three months, the training in the rural centres took place, made by the rural coordinators, replying the model learnt in the local centres, for the first module – *The Start up of the Business*, due to the composition of the target group. The last three months of the project were devoted to assessing, monitoring, and disseminating the results of the project.

Integrating the *Action Learning* method in the AntrES Entrepreneurial School had in view the achievement of the objectives set beyond the simple providing of a set of knowledge to initiate, develop, or support a business, to determine a change based on learning, in the true meaning of the word. According to the *Action Learning* method, the difference between *knowing* and *understanding* is the following: *knowing* means to be capable of doing; *understanding* means to be capable of changing the reality you understood. *Learning means Progress*, which, in turn, represents our capacity to make *Change for the better* (Dodescu et al., 2004a). Using the *Action Learning* method, applied by the coordinator of the AntrES project in a previous project (Dodescu et al., 2004b), starts from the widely accepted hypothesis in the literature, that the entrepreneurship is learnt to a higher extent through informal or non-formal means than through the formal educational system; that is why the AntrES Entrepreneurial School, based on the *Action Learning* method, created the "with and from the others" learning situations, by forming mixed sets (groups) – made up of women from all the three target groups: women

managers of their own business wishing to develop, women wishing to start up their own business and last year students in the Economics, who trained and became trainers in the field of entrepreneurship;

therefore, women *with* and *without* entrepreneurial experience, in different stages of knowledge and understanding of entrepreneurship. Within these groups, the women were encouraged to talk, based on the subjects presented in the course and application books, and, also from their own experience, being stimulated to share their own problems and to advise each other, to ask and answer, being an inspiration to each other, motivating each other and learning from each other. The sequence of the courses in the territorial, local, and rural centres implied the participation, for an hour, of an outside expert, preferably a well-known woman entrepreneur or a woman with acknowledged professional competences for the subject debated, at the level of that particular town or village, prepared to share to the participants her success story or her experience in the field. Taking into consideration the impact demonstrated on the women entrepreneurship of the models, of learning from the others' experience, success, or mistakes, by using the *Action Learning* method, mainly, characterised by *Learning with and from the others*, The AntrES Entrepreneurial School set up – and it succeeded, we believe – to help the women managers to better understand their business, to develop it and to become real entrepreneurs, to infuse to the women wishing to start up their own business the necessary courage to pool and mobilize resources in order to become entrepreneurs, and to transform the young trainers in the field of entrepreneurship into promoters of entrepreneurship from conviction, not from necessity (Dodescu, Bădulescu, 2010, pp. 470-476).

The finalization of the courses of the AntrES Entrepreneurial School consisted in drawing up of the business plan by the students, with which they participated to the contest "*My business plan*". The best business plans were awarded within *Galas of Women Entrepreneurship*. Out of the total of 1,800 business plans registered and assessed in the contest, a total number of 724 business plans made by the women trained in the project were emphasised and promoted, a total number of 408 business plans was recommended to participate to the awarding stages and a total number of 108 women wishing to start up their own business were awarded in money, with minimum amounts of money necessary to initiate the business (sums between 1,000 and 2,000 lei).

The deploy of the AntrES project has permitted the creation of an educational, research, training, institution, and communication inter-regional network; the creation of a model of Entrepreneurial School for women; the making of business plans addressing the needs and the development priorities specific to the inter-regional area had in view.

The research activity was not the main activity of the AntrES project, but it took place complementarily to the training activity within the Entrepreneurial School for Women, yet this activity proved to be, along the project, on one side – a necessity, on the other side – an opportunity. On one side, the necessity for a correct and articulate theoretical framing of the women entrepreneurship, as a support for the capitalization of entrepreneurship courses, and, also, to manage a project of such a span so that it generates initiated and stabilized businesses, jobs, economic growth and regional development, in the not predictable and obviously not stimulating conditions of the economic-financial crisis, of the frequent legislative changes, fiscal authority, quasi-generalised indifference of the strategies and policies regarding the SME sector in Romania and the reduced Romanian entrepreneurial spirit among women and in the rural area; on the other side, the opportunity to scientifically “explore” some numerous target groups representative for the illustration of the women entrepreneurship in the Western Romania has boosted the research activity.

Research methodology

The research activity performed in the AntrES project took place in two directions: *quantitative* – consisting in the research based on the *survey* of the most significant aspects concerning the profile of the business women, and the potentially enterprising members of the project’s target groups, and *qualitative* – consisting in the research based on an open structured *interview* applied to some successful women entrepreneurs from each place, both urban and rural, where an AntrES centre developed its activity (these women were invited as outside experts to the courses of the AntrES School) of some aspects concerning the personal profile of the business owned.

The quantitative research had three distinctive components, according to the students’ residence environment and the target group they were part of. The application of the surveys was followed by the creation of the data bases and then the processing of data using the SPSS software.

The first component had in view the *women entrepreneurs from the urban area* (members of the target group I): territorial centres – 6 county capital cities and the local centres – 24 towns and smaller municipalities in the counties in the project’s area of implementation. The research performed in order to identify the entrepreneurial profile of the women in the urban area who have and manage their own businesses (members of the target group I) was made based on the creation and administration of a *Research-Monitoring Survey*. This

survey had a number of 52 questions, grouped on themes: demo-economic profile, professional experience, business profile, entrepreneurial history, difficulties encountered, motivational aspects and psychological profile.

The data base aggregated at the urban level (territorial centres and local centres) has a number of 314 records and it is made up of the answers recorded at the Research-Monitoring Surveys applied to the respondents in the target group I – women managers from the territorial and local centres in Maramureş, Satu Mare, Bihor, Arad, Timiş, Caraş-Severin counties, as follows:

- at the level of AntrES territorial centres (municipalities: Baia Mare, Satu Mare, Oradea, Arad, Timişoara, Reşiţa) between 17.07.2009 – 31.07.2009; the application of these surveys to the respondents in the target group I – women managers (including the substitutes) generated a total number of 153 records;
- at the level of AntrEs local centres (towns: Târgu Lăpuş, Baia Sprie, Seini, Sighetul Marmăţiei – Maramureş county; Negreşti Oaş, Ardud, Carei, Tâşnad – Satu Mare county; Marghita, Salonta, Aleşd, Beiuş – Bihor county; Chişineu Criş, Lipova, Ineu, Pecica – Arad county; Lugoj, Jimbolia, Recaş, Buziaş – Timiş county; Bocşa, Caransebeş, Moldova Nouă, Băile Herculane – Caraş-Severin county) between 22.01.2010-30.01.2010; the application of these surveys to the respondents in the target group I – women managers (including the reserves) generated a total number of 161 records.

The second component referred to the *potentially enterprising women* (members of the target group II), also from the urban area (territorial and local AntrES centres). The research regarding the women in the urban area wishing to start up their own business (potentially enterprising women – members of the target groups II) took place similarly with that made among women from the urban area that have and run their own business. Therefore, a Research-Monitoring Survey was conceived and applied which had 38 questions, referring to themes like: demo-economic profile, professional experience, business profile, perceptions regarding the start up of a business, motivational aspects and psychological profile.

The data base aggregated at the urban level (territorial centres and local centres) contains a total number of 743 recordings and it is constituted of the answers recorded at the Research-monitoring Surveys applied to the respondents in the target group II – women wishing to start up their own business, from the territorial and local centres in the counties of Maramureş, Satu Mare, Bihor, Arad, Timiş, Caraş-Severin, as follows:

- at the level of AntrES territorial centres (municipalities: Baia Mare, Satu Mare, Oradea, Arad, Timișoara, Reșița) between 17.07.2009 – 31.07.2009; the application of these surveys generated a total number of 252 recordings;
- at the level of AntrES local centres (towns: Târgu Lăpuș, Baia Sprie, Seini, Sighetul Marmăției – Maramureș county; Negrești Oaș, Ardud, Carei, Tășnad – Satu Mare county; Marghita, Salonta, Aleșd, Beiuș – Bihor county; Chișineu Criș, Lipova, Ineu, Pecica – Arad county; Lugoj, Jimbolia, Receaș, Buziaș – Timiș county; Bocșa, Caransebeș, Moldova Nouă, Băile Herculane – Caraș-Severin county) between 22.01.2010 – 30.01.2010; the application of these surveys generated a total number of 491 recordings.

The third component had in view the identification of the entrepreneurial specific in the rural area, taking place among the *potentially enterprising women*, members of the target group II, from the *rural area*, and the 72 AntrES rural centres. The research took place based on the application and processing of the same research-monitoring survey just like in the case of the research performed at the urban level for the target group II – women wishing to start up their own business.

The data bases at the rural level (rural centres) contains a total number of 979 recordings and it was constituted by applying these surveys to the women in the target group II, in the period July-September 2010, in 72 AntrES rural centres (Bihor county: Spinuș Aușeu, Vadu Crișului, Bratca, Budureasa, Roșia, Pomezueu, Tinca, Avram Iancu, Tulca, Diosig, Sălacea; Timiș county: Coșteiu, Remetea Mare, Bucovăț, Belinț, Victor Vlad Delamarina, Topolovățu Mare, Racovița, Boldur, Cheveleşu Mare, Cărpiniș, Comloșu Mare, Lenauheim; Arad county: Seleuș, Șicula, Cermei, Craiva, Beliu, Șiulac, Bocsig, Șeitin, Secusigiu, Săvârșin, Bata, Ghioroc; Maramureș county: Dumbrăvița, Copalnic Mănăștur, Șișești, Coroieni, Groșii Țibleșului, Cupșeni, Cicârlău, Săpânța, Vadu Izei, Rona de Sus, Recea, Groși; Caraș-Severin county: Ruieni, Slatina Timiș, Armeniș, Pojejena, Coronini (Pescari), Berzasca, Mehadia, Iablanița, Topleț, Măureni, Berzovia, Ramna; Satu Mare county: Bixad, Turț, Halmeu, Culciu, Valea Vinului, Medieșul Aurit, Vetiș, Doba, Odoreu, Moftin, Căuaș, Călinești Oaș).

The second direction of research was the *qualitative* one. Thus, an *open interview* was made with a number of 102 women experts invited to the AntrES courses, these being successful women entrepreneurs themselves from each place – AntrES territorial/local/rural centre. The interviews were focused on aspects like: the occurrence of the business idea, its evolution until the present time and the future perspectives; the profile, the satisfactions, and the difficulties associated to the career of entrepreneur embraced by a woman; the

role of the entrepreneurial education; the perception on the gender differences in the entrepreneurial field etc. The answers given by the 102 women represent an important thesaurus of resources and opinions which completes and illustrate the results of the quantitative research performed in the AntrES project.

The results of the research

What we intend to present further, in synthesis, represents the conclusions resulted both from the research performed at the beginning of the project, incarnated in *The Economic Diagnoses* of the six counties investigated in the Western Romania, and *the quantitative and qualitative research* performed among more than 1,800 women, members of different target groups of the AntrES project, and among the 102 successful entrepreneur women from the AntrES centres. The conclusions resulted from the investigation of these valuable and rich resources were grouped on several directions, as follows:

- aspects referring to the existence of certain gender differences in the field of entrepreneurship – the so-called “gender gap in entrepreneurship” – *regarding the initiation of new businesses and the ownership of the businesses in the Western Romania – extracted mainly from the Economic Diagnoses of the counties in the Western Romania;*
- aspects referring to the *characteristics, motivations, and difficulties of the woman entrepreneur and of the potentially enterprising woman in the Western Romania – resulted from processing and interpreting the surveys applied to the target groups of the AntrES project – women managers of their own businesses and women wishing to start up their own business, surveys applied during July 2009 – September 2010, at the level of the six territorial centres, 12 local centres and 72 rural centres situated in the towns and villages mentioned in the Western Romania, and 979 surveys applied in the rural area in 72 villages in the Western Romania;*
- aspects referring to the *perceptions regarding gender equality in the field of entrepreneurship in the Western Romania – resulted from the 102 interviews made with successful women entrepreneurs in the Western Romania, invited as outside experts at the AntrES Entrepreneurial School.*

1. Gender gaps regarding the start up of a new business and the business ownership in the Western Romania

When the analysis of some indicators specific to the labour market (the rate of active population, the employment rate, the unemployment rate etc.) does not lead to the identification of some relevant clues from the perspective of gender gaps in the Western Romanian counties (Maramureș, Satu Mare, Bihor, Arad, Timiș, Caraș-Severin), we cannot say the same thing *analysing the number of busineeses started and owned by women* compared to the number of businesses started and owned by men in the Western Romania.

The existence of some considerable gender gaps regarding the start up of a new business and the business ownership in the Western Romania is confirmed by the economic diagnoses of the counties in the Western Romania (Maramureș, Satu Mare, Bihor, Arad, Timiș, Caraș-Severin) realized in AntrES project, during March-June 2009 (Dodescu et al., 2010). The comparative analysis of the number of women and men company administrators, SMEs administrators, natural persons etc. in the counties in Western Romania (Maramureș, Satu Mare, Bihor, Arad, Timiș, Caraș-Severin)⁽³⁾, confirms the generally embraced conclusion both in the literature (Parker, 2009, p.184), and in the international reports dedicated to women entrepreneurship (Allen et al., 2007) that *there are certainly gender gaps in the Western Romania regarding the start up of new businesses and business ownership*.

More exactly, regarding the *natural persons*, at the end of 2008, for all the counties analysed, the number of men was around 1.5 times higher than the number of women, the most important difference being recorded at the level of Timiș county – 2.3 times more men natural persons than women. *The analysis of the administrators of companies* registered in 2008 clearly emphasises even a higher discrepancy between men and women – the highest being recorded in Maramureș county, of almost 3 times (2.79) higher, the lowest, almost inexistent – in Satu Mare county; in the rest of the counties analysed, the number of men administrators of companies is double or much higher than that of women. Taking into consideration *the number of administrators of small and middle sized enterprises* registered in 2008, it can be seen similar discrepancy in all the six counties, that is the number of men is almost double, and of almost 2.1 times higher in Maramureș and Timiș. The highest and the most disproportionate disparities are encountered in the number of *administrators of large enterprises* registered in 2008: more than 8 times more men than women in Caraș-Severin county, of more than 5 times in Satu Mare county, of almost 4 times in Timiș, Bihor, Maramureș counties and of 2.65 times in Arad county (Dodescu, Giurgiu, 2010, pp. 111-119).

The preliminary conclusions provided by the economic diagnoses of the six counties investigated in Western Romania referring to the existence of gender gaps in the field of entrepreneurship – the so-called “*gender gap in entrepreneurship*” are completed by the conclusions resulted from the application of the surveys in the target groups of the AntrES project – women managers of their own business and women wishing to start up their own business, surveys applied during July 2009 – September 2010, at the level of the 6 territorial centres, 12 local centres, and 72 rural centres situated in the towns and villages mentioned in the Western Romania.

2. The characteristics, motivations, and difficulties of the women entrepreneurs managers of their own companies in the Western Romania

For a faithful image of the *entrepreneur woman manager of her own company in the Western Romania*, we are presenting below, as a synthesis, the results of the interpretation of surveys applied to the students of the Entrepreneurial School of the target group I – women managers of their own business (314 surveys applied in the urban area in 18 towns in the Western Romania):

- the majority of the respondents (74%) are *married* and they live in households of 2-4 members, having in most of the cases *1 or 2 children*;
- the average age is 39.04 years old;
- 48.4% are sole proprietor of the business, while 51.6% own the firm together with other people, the co-proprietors being, in 85% of the cases, *family members*;
- 70% are *employed in their own company*;
- over 80% have *university or high school education*, and 40% attended specialization or training courses in different fields, those related to business management and administration being predominant;
- only 29.6% have a business plan;
- for 83.2% it is their first business, the average age to start up the first business being 31.5 years old;
- 74.5% had other jobs previous to the entrepreneurial experience;
- over 88% started their business alone.

The predominant context in which the women entrepreneurs managers of their own business in the Western Romania started up their own business is either that of an *unsatisfying job* or the *loss of their jobs*, conjugated with the identification of a business opportunity or idea, *amid a favourable economic*

context; in spite of all these, surprisingly, only a sixth part of the respondents declared that they started up their business for money, while two thirds of the respondents declared that *they initiated the business in order to demonstrate to themselves and people around that they could succeed*. Out of the firms owned, the overwhelming majority are *micro-enterprises* (80.9%), the reduced dimensions of the firms being disclosed in the average number of employees (9.86 people), in the average turnover (approximately 1.3 million lei) and in the average profit (approximately 240,000 lei)⁽⁴⁾. Regarding the fields of activity, the overwhelming majority of these firms (76.5%) activate in the field of *trade, tourism and services*. As entrepreneurs, the women in the Western Romania faced numerous *obstacles and difficulties*, currently increasing as compared to the moment when they initiated their businesses: *high fees and taxes, bureaucracy, frequent legislative changes, competition, financial difficulties*; followed by non-economic obstacles and difficulties: *disbelief in the own person; merging the professional life with the family life; gaining the acceptance and the respect of people*.

Regarding the access to funds, this was relatively reduced – 24.1% declared that they had benefited from redeemable funds (credits) and only 5.5% of the respondents declared that they had benefited from non-redeemable funds.

A rejoicing result is that the respondents are aware of the importance of professional training for the success of a business, considering by far competence and experience in the field as essential conditions of a perspective business.

3. The characteristics, motivations, and difficulties of the potentially enterprising women in the urban and rural areas in the Western Romania

Continuing the integration exercise, this time referring to the *image of the potentially enterprising woman in the urban and rural areas in the Western Romania* – created based on the surveys applied to the students of the Entrepreneurial School of the target group II – women wishing to start up their own business (743 surveys applied in the urban area in 18 town in the Western Romania and 979 surveys applied in the rural area in 72 villages in the Western Romania), we can conclude that:

- the majority of the respondents are married (53% in the urban area, 74.6% in the rural area);
- almost half of the respondents in the urban area live in households with *one child*, and two thirds of the respondents in the rural area live in households with *one or two children*;

- the average age is 32.39 years old in the urban area and 35.47 in the rural area;
- two thirds of the respondents – both in the urban and rural areas – are *employed*, and the overwhelming majority – 88.8% in the urban area and 84% in the rural area – *have never started up a business so far*.

If the portraits of the potentially enterprising women in the urban and rural areas have been quite similar so far, the differences, otherwise predictable, occur in:

- *the studies* – 63% of the respondents in the urban area have university and post-graduation, compared to 43% in the rural area;
- *the field of activity* – two thirds of the respondents in the urban area work in *tourism, services, trade, education*; in return, in the rural area, almost 60% work in the *public administration or education*;
- *the fields of activity in which they intend to start up their business* – 80% of the preferences of women in the urban area are directed towards *tourism, services, and trade*, followed by: industry-constructions, agriculture, education-instruction-research-culture, medicine and body care; in return, in the rural area, *trade* is preferred by 32.4% of the respondents and it is followed, as expected, by *agriculture*.

Regarding the problems that the potentially enterprising women are facing – the economic dependence and poverty are major problems, especially in the rural area where 10% of the respondents declared that they did not have any kind of income, 25% said that they had an income up to 500 RON, and 50% said that they had an income up to 900 RON.

Both in the urban and the rural area, *the problem of funds' insufficiency to start up the business* is grim – 90% consider that they do not have at all or they have a small amount of financial resources, more than 70% consider that they do not have at all or have a small amount of material resources, and 50% consider that they do not have at all or they have a small amount of human resources.

In this context, yet, it is rejoicing the fact that 66% of the women in the rural area and 71% in the urban area consider that they benefit from important support from family and more than 55% intend to involve their families in the business, both as an essential human resource and as an extension of the family partnership. Also, it is explainable that the respondents prefer those fields to start up their business in which the necessary start-up capital is lower – trade, tourism, services etc.

4. The perceptions of the successful women entrepreneurs in the Western Romanian regarding the gender equality in the field of entrepreneurship

The answers of the *successful women entrepreneurs in the Western Romania*, interviewed within the project, invited as outside experts at the AntrES Entrepreneurial School, are refining these conclusions, especially by shaping *the characteristic features of the women entrepreneur in the Western Romania, the ingredients of a successful business seen by women and the perception regarding the gender equality in the field of entrepreneurship in the Western Romania*.

When asking *Which do you think are the features that a woman entrepreneur must have?* – the list of answers of the successful women entrepreneurs in the Western Romania contains both those features to the entrepreneurship frequently encountered in literature (Casson et al., 2006, Brush, 2006): *ambition, responsibility, consistency, flexibility, adaptability, courage, creativity, willingness, implication, motivation, determination, hard work, predisposition to action, innovating spirit, trust in own forces, winner mentality, capacity to take risks, organizational capacity, capacity to see opportunities when occur etc.*, and those quoted in the literature devoted to women entrepreneurship: *perseverance, predisposition and ability to work hard, communication abilities, networking, ability to make compromises, ability to listen, ability to tolerate, intuition, sensitivity, empathy, objectivity and motivation, capacity to learn continuously, likeability, consciousness, curiosity, punctuality, seriousness, honesty, modesty, carefulness, respect for partners etc.* The feature with the highest frequency in the answers of the successful women entrepreneurs in the Western Romania is *perseverance*.

When asking *Which do you think are the ingredients of a successful business in Romania?* – besides answers like: *knowing of the business environment, understanding and capitalizing the opportunities, creating a competent work team etc.*, we consider three elements to be significant to illustrate the women entrepreneurship, present in over 90% of the answers of the successful women entrepreneurs:

- *Education and professional experience in choosing the field of activity and entrepreneurial education* (“The role of education is essential, you cannot learn to walk unless your parents are near, you cannot learn to talk unless the presence of some people who can talk; like this, a business cannot “run” forward before it learns to walk and, even if business may “crawl on all fours”, a guide offered by education, in any form possible, is that which can teach the business and its manager to

adapt to the environment and continue living” – Micurescu Laura Adela, Bata, Arad);

- *passion, even love, for that particular business* (“The business is like a marriage, if it is from love, it succeeds,..., in life it is extraordinary if you do what you like, if you can combine business with pleasure” – Cioban Valerica, Arad, Arad; “...if you like what you do when you work, you will never feel you do work” – Cerneștean Viorica, Dumbrăvița, Maramureș; “...if you do what you like, if you work with self-denial and enthusiasm, the success comes naturally” – Buda Alexandra, village Ungureni, Cupșeni, Maramureș);
- *the family support and safety* (“The satisfactions that a women entrepreneur lives are given by the moments when she realizes that her dream has come true, that she is independent and her family always supports her” – Monica Dragomir, Copalnic Mănăstur, Maramureș; “...one of the most important hardships that a business woman may encounter is not to find support in other people and not to have her family close” – Lumes Lidia, Sighetul Marmației, Maramureș; “... with the help of your family, business work well even during crisis” – Monica Dragomir, Copalnic Mănăstur, Maramureș; “...a created business is a good of the entire family, is an inheritance that you can leave to your children, a business is not just a present income, but an insurance for the future” – Georgeta Haiduc, Avram Iancu, Bihor).

The overwhelming majority of successful women entrepreneurs in the Western Romania consider that *there is no gender discrimination in the field of entrepreneurship in the Western Romania*, stating that they either did not had to deal with or they did not encounter situations of gender discrimination in businesses, or that the possible discriminations they had to deal with were isolated, minor, and considerably faded in time (“There is no gender discrimination in businesses in Romania nowadays, except for some isolate cases” – Dragomir Monica, Copalnic Mănăstur, Maramureș). The opposite, there answers invoking the existence of gender discrimination in business; yet, these answers are not frequent (“Of course, there are discriminations, both in business and in everyday life” – Buda Alexandra, village Ungureni, Cupșeni, Maramureș; “I often had to deal with the prejudices of selfish and misogynistic men, who do not believe in the women’s capacity to work hard like a man, who speculate the fact that women have to merge business with work in the household” – Nyiki Liliana, Odoreu, Satu Mare; “Women are discriminated against in business, they are often disconsidered, but on the other hand, these disadvantages are counterbalanced by the native qualities of women” – Georgeta Haiduc, Avram Iancu, Bihor; “...there is still discrimination, in this

view, because the men's mentality is that that, still, women have to deal with the household and there is no place for them in business" – Șchiop Marta, Șurdești, Maramureș). The negative aspects, almost unanimously, invoked by the women entrepreneurs in the Western Romania are *disbelief*, especially in the first years of their business, and the *people's tendency to discourage them* ("People were blaming me: What does this girl think, that she will manage alone?" – Rodica Sala, Beiuș, Bihor; "...people around will not encourage them, but on the contrary, they will discourage them" – Șchiop Marta, Șurdești, Maramureș; "...there is a certain disbelief in a woman's capacity to keep a promise, but this disbelief can be easily overcome" – Lidia Popuțe, Tulca, Bihor).

Considering that the gender discrimination does not represent a problem in business or it is a minor problem, the successful women entrepreneurs are considerably more preoccupied to understand and explain *the differences between the women entrepreneurs and the men entrepreneurs*, their answers confirming, this time, too, the broad literature devoted to the *business women stereotype* ("Women want fulfilment, men want independence. Women hardly fall back on loans than men, they start up a business only if there are enough personal resources so that borrowings are as small as possible. Ladies and young ladies are more flexible and more tolerant than men, which makes them have different management styles. Also, they often choose businesses in the field of services, while men in technical fields" – Camelia Cican, Băile Herculane, Caraș-Severin; "All what can make the difference between businessmen and businesswomen are certain personal characteristics and features emphasising different approaches regarding the tolerance in work, the degree of flexibility, personal perseverance or involvement" – Mariana Dafinoiu, Iablanita, Caraș-Severin; "The differences between the women and men entrepreneurs arise from the fact that women are very good negotiators, they have as an advantage the their intuition, becoming invincible by the way in which they throw all their resources in the business they run. There are some disadvantages too related to their sensitivity and the way they perceive the reality, but these, with little exercise, can be counteracted" – Tudor Lăcrimioara, Ghioroc, Arad; "these differences generally manifest in elements like: for men is much easier than for women to take a risk, women are more careful with details and better organized; in return, men are more firm and they inspire more confidence to their business partners" – Cernestean Viorica, Dumbrăvița, Maramureș; "Women are more prone to take a risk in career, they change the rules of the game, they build their own style of management and look for a place where they can prove their qualities. A woman's advantages are not tough competition, aggressiveness, but organization, relational

management, empathy, and the capacity to achieve several tasks without omitting details” – Iene Carmen, Lipova, Arad; “Women are of a more sensitive nature, as men dare more and are more trustful, due to these reasons men have more chances to get what they want” – Dragomir Monica, Copalnic Mănăştur, Maramureş; “...women tend to be more motivated in what they do, to be more dedicated, to put soul. Women feel the need of accomplishment, they have a stronger desire than men to be promoted and manifest their talent” – Buda Alexandra, village Ungureni, Cupşeni, Maramureş).

If the differences between women entrepreneurs and men entrepreneurs are considerable, *the hardships they have to deal with in business, in Romania, are identical, according to the majority of women entrepreneurs interviewed* (“The hardships that a business deals with are the same no matter the person who founds it, all of us have to deal with the same «windmills»: unstable and exaggeratedly «bushy» legislation, inherited bureaucracy and the deficiencies of the public system, many inextricable taxes etc.” – Micurescu Laura Adela, Bata, Arad; “For a business woman is as hard life as for a man in Romania. Bureaucracy does not make discrimination” – Lidia Popuţ, Tulca, Bihor).

Conclusions and policy recommendations

If regarding *the potential of education, passion, ambition, motivation, and responsibility for family*, which results both from the portrait of the women entrepreneur and from the portrait of the potentially enterprising women, students of the AntrES Entrepreneurial School, we can add the special interest to register for the courses of the Entrepreneurial School, to occupy all the available places in all the territorial, local, and rural centres, to supplementary accept some students having the status of substitutes in order to prevent the abandon cases of the target groups, the extremely low rate of course abandon, the high scores of the students when evaluating the initiation and development plans for the business, the percentage of over 10% of the students who started businesses up immediately after graduating the courses, as a result of the support and counselling received in the AntrES project – in our opinion, convincing arguments clearly result to support the women entrepreneurship and directions of public action to support the businesses initiated and run by women.

The answers of the successful women entrepreneurs in the Western Romania, interviewed in the AntrES project, are refining these conclusions and directions of public action. The majority of the interviewed women consider that, in Romania, *in business “there is no gender”* and there is no gender

discrimination and that, generally, *the women entrepreneurs are dealing with the same hardships as the men entrepreneurs*.

These conclusions are not surprising, having in view our tradition inherited from the communist period, that of “*the rights equality between men and women*”, the high rate of participation of women to university education and the favourable collective mentality regarding the women’s participation in all the fields of social life. Yet, invoking the *hardships related to conciliating family life with professional life, confronting the disbelief and discouragement from people around* and certain *sexist stereotypes* existing in our society towards the business women, lead to the conclusion that, even though the traditional collective mentality is favourable to women’s involvement in all the fields of social life, the collective mentality regarding women’s involvement in the business is still in training, just like the entrepreneurial culture in Romania.

We consider as significant the differences perceived by the interviewed women between the features of the women entrepreneurs and the men entrepreneurs, the specific differences most commonly mentioned being: *perseverance, predisposition and ability to work hard, as well as the abilities specific to emotional intelligence*.

These specific differences and not the gender discrimination, generally considered, must constitute “the tough nucleus” of public policies stimulating the women entrepreneurship (Holtz-Eakin et al., 2004), and of the so-called in the literature *gender-sensitive strategies* (Parker, 2009, pp. 184-200) which, in our opinion, must follow three main directions:

1. General measures to encourage women entrepreneurship

- active measures promoting the entrepreneurial culture, especially among women;
- measures to reduce bureaucracy and the instability of financial and commercial legislation;
- active measures to conciliate family life with professional life;
- active measures to support the start up and development of business by women, especially businesses involving self-employment, co-preneurship, and family businesses;
- information campaigns meant to make the public aware and sensitive to gender disparities and sexist stereotypes existing in the field of entrepreneurship and to the advantages to support women entrepreneurship;
- to reform the legal policies and systems and to develop juridical services meant to protect women’s ownership rights and the women’s rights in the field of entrepreneurship;

- to create some offices, agencies, national and regional information networks to counsel and support the women entrepreneurs and the potentially enterprising women, of some data bases to promote the business opportunities, the facilities for the women entrepreneurs, associations, actions, programmes etc. of interest for the women entrepreneurs and potentially enterprising women;
- to support the training and instruction programmes for the women entrepreneurs and potentially enterprising women, both within the formal education and within the non-formal education etc.

2. Specific measures to support the development of the businesses initiated, owned, and run by women

- to encourage the exchange of information and experience, the networking among the women entrepreneurs (Watson, 2010, pp. 116-118) by supporting the creation and development of the networks of business women, to sound some business clubs for women, resource centres for business women, communication and information networks for the women entrepreneurs with different experience in the business, taking into consideration that the women's entrepreneurial impulse in Romania is strongly influenced by models, entrepreneurial examples (Driga, Lafuente, 2007);
- to create and develop some business services (juridical services, accounting services, counselling in the fiscal field, services of job selection and place, quality certification services, services regarding the patents, license, and brands etc.) for the women entrepreneurs, in local, regional business centres for women;
- to encourage the development of those training, professional training programmes, business schools for women based on the *Action Learning* method – “*Learning with and from the others*”, taking into account the demonstrated impact that learning from the other's experience, success, or mistakes has on the women entrepreneurship;
- to create and develop some coaching, mentoring, counselling etc. programmes for the development of initial businesses, owned and run by women;
- to facilitate the access to funds for the women entrepreneurs, by creating and developing some funding products with subsidised interest, and advantageous credits destined to women wishing to develop their business, in compliance with the conditions related to the field of activity, investment, added valued, competitiveness etc. (currently, in Romania, only EXIMBANK and Credit Europe Bank Romania give special credits for the women entrepreneurs);

- to give bank loans with government guarantees destined to women wishing to develop their business, in compliance with conditions related to the field of activity, investment, added value, competitiveness etc., in order to co-finance European projects (currently, in Romania, only the local public authorities, the associations related to the water infrastructure, universities and research entities can benefit from bank loans with government guarantees in order to co-finance European projects);
- to provide fiscal facilities for the businesses developed by the women entrepreneurs in national, regional, and local key fields and defined as such in the national, regional, and local development plans;
- to encourage the partnership of local authorities with women entrepreneurs and the investments of the women entrepreneurs in order to solve community problems;
- to support the participation of the women entrepreneurs to regional structures of business support (technological parks, industrial parks etc.) to clusters in innovative sectors (*knowledge driven sectors*), which incorporate research-development and highly qualified labour force, as well as to support the investments of the women entrepreneurs in the IT field etc.

3. Specific measures to support the women's business start up according to the residence environment – urban/rural and, implicitly, according to the different potential of the two environments:

- to minimize the administrative barriers, to simplify the legislation, to re-regularize (Urban, 2010, pp. 77-79), to reduce or exempt from the establishment fees and to provide fiscal facilities for the women to start up businesses which involve self-employment (Bonnet et al., 2010, pp. 66-73), co-preneurship and family involvement;
- to facilitate the potentially enterprising women's access to communication and information networks and to data bases in order to promote business opportunities;
- to create and develop some counselling services regarding business start up destined to women, especially in the rural area, within the local public administrations;
- to encourage the participation of the potentially enterprising women to those instruction programmes, professional training, business schools for women based on the *Action Learning* method – “*Learning with and*

from others”, having in view the favourable impact of learning from other business women’s experience;

- to encourage the establishment of new firms by giving a period of fiscal grace, fiscal facilities in those fields considered a priority at the local, regional, national levels and defined as such in the national, regional local development plans (for instance, agriculture or agro-tourism in the rural area; industry, education, health and social assistance in the urban area etc.);
- to give state aids to promote the women’s entrepreneurial activity in accordance to the EU’s State Aid Policy: General Block Exemption Regulation which allows the member states to support the newly created small enterprises of the women entrepreneurs so that they can overcome specific market the failures they are facing, especially the access to funds and the support of different types of operating costs, including the child support and parent support⁽⁵⁾;
- to give microcredits without guarantees or to evaluate in a non-traditional manner the solvency for the women initiating their own business, meant to increase and find employment, including in those fields serving to some cohesion purposes, due to the attempt to re-integrate the disadvantaged into society⁽⁶⁾;
- local authorities should support the start-ups for women, the initiation of business by potentially enterprising women, in partnership with the local authorities, in order to solve some community problems etc.⁽⁶⁾

Without pretending to have shaped comprehensive conclusions and exhaustive proposals, we express, in the end, the hope that the present analysis will contribute to the stimulation of the interest to research the problems of the women entrepreneurship in Romania, to discover the potential of the women entrepreneurship as an engine to overcome the economic crisis and the poverty of the families and communities in Romania, as well as to increase the importance of supporting the businesses initiated and developed by women in capitalizing the public policies and strategies at the national, regional, and local level.

Acknowledgements

This paper was made in the project “*Entrepreneurship and the Equality of Chances. An Inter-regional Model of Women School of Entrepreneurship*” (acronym AntrES), a strategic project co-financed by the Social European Fund, Sectoral Operational Programme Human Resources Development 2007-2013,

“Investing in people!”, Priority Axis 3 “Increasing adaptability of workers and enterprises”, Major Intervention Domain 3. 1 “Promoting entrepreneurial culture”, Contract: POSDRU/9I/3.1/S/5 (grant value 12,500,104,00 lei), which took place between 5.01.2009 – 5.01.2011 under the coordination of the Faculty of Economics, University of Oradea, in partnership with: West University of Timișoara; “Aurel Vlaicu” University, Arad; North University of Baia-Mare; “Eftimie Murgu” University, Reșița; Commercial Academy of Satu Mare; Management Scientific Society of Romania and The National Agency for Equal Opportunities between Women and Men; : www.antres.ro.

Notes

- (1) „A guide to womenomics. The future of the world economy lies increasingly in female hand” (2006), *The Economist*, Apr 12th 2006, [online], <http://www.economist.com/node/6802551>
- (2) “*The Economic Crisis: The Impact on Women*”, USAID, [online], http://www.usaid.gov/our_work/cross-cutting_programs/wid/WID_FACT_SHEET_Gender_Economic_Crisis_v2.pdf.
- (3) The analysis is based on the following data sources: *The National Trade Register Office (2009)* Statistical Yearbook of Romania (2007, 2008, 2009), Maramureș, Satu Mare, Bihor, Arad, Timiș, Caraș-Severin County Statistics Offices (2007, 2008, 2009); European Commission (2008, 2009, 2010) Eurostat, <http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/themes>; European Commission (2008, 2009, 2010) *The Observatory of European SMEs*, [online] <http://ec.europa.eu/enterprise/policies/sme>.
- (4) Information based on the respondents’ statements.
- (5) *** *Politica UE privind ajutoarele de stat: Regulament general de exceptare pe categorii de ajutoare, (EU State Aid Policy: General Block Exemption Regulation)* [online], http://ec.europa.eu/competition/state_aid/legislation/gber_citizen_summary_sheet_ro.pdf.
- (6) The European Parliament’s resolution of 24 March 2009 *on a European initiative for the development of micro-credits in support of growth and employment* (2008/2122(INI)), *Official Journal of the European Union*, 24 March 2009, [online], <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2010:117E:0085:0090:RO:PDF>.

References

Allen, E., Elam, A., Langowitz, N., Dean, M., „Report on Women and Entrepreneurship”, *Global Entrepreneurship Monitor (GEM)*, 2007, [online], GEM website, www.gemconsortium.org

- Bonnet, J., Perez De Lema, D.G., Van Auken, H. (2010). *The Entrepreneurial Society. How to Fill the Gap Between Knowledge and Innovation*, Edward Elgar Publishing House
- Bosma, N., Levie, J. with contributions from Bygrave, D. W., Justo, R., Lepoutre, J. and Terjesen, S., „Global Entrepreneurship Monitor, 2009 Global Report” [online], GEM website, www.gemconsortium.org
- Bruni, A., Gherardi, S., Poggio, B. (2008). *Gender and entrepreneurship, an ethnographical approach*, Oxon, New York, Routledge
- Brush, Candida G., „Women – Owned Business: Obstacles and Opportunities”, *Journal of Developmental Entrepreneurship*, 2,1, 1997
- Brush, Candida G., Carter, Nancy M., Gatewood, Elizabeth (2004). *Clearing the Hurdles: Women Building High Growth Businesses*, New York, Prentice Hall Financial Times
- Brush, Candida G. (2006). *Women entrepreneurs: a research overview*, Oxford, Oxford University Press
- Casson, M., Yeung, B., Basu, A., Wadeson, N. (2006). *The Oxford Handbook of Entrepreneurship*, Oxford, Oxford University Press
- Driga, O., Lafuente, E., „Antreprenoriatul Feminin in Romania: Caracteristici personale si efectul variabilelor socioculturale” (Female Entrepreneurship in Romania: Personal Characteristics and the effect of socio-cultural variables), Centre for Entrepreneurship & Business Research (CEBR), *CEBR working paper*, series WP 02/2007, [online], CBR website, www.kfacts.com
- Dodescu, Anca (coord.), Barker, A., Brihan, A., Giurgiu Adriana (2004a). *Ghid practic Action Learning (Action Learning Practical Guide)*, Editura Universității din Oradea
- Dodescu, Anca (coord.), Barker, A., Giurgiu Adriana (2004b). *Un nou model de școală antreprenorială în domeniul resurselor umane (A New Model of School of Entrepreneurship in the field of Human Resources Development)*, Editura Universității din Oradea
- Dodescu, Anca, Bădulescu, Alina, „Entrepreneurship Education and Training. Study-Case: the AntrES programme on Women Entrepreneurship in Western Romania”, *WSEAS – EMT '10 Conference Proceedings*, volume II, pp. 470-476
- Dodescu, Anca, Bădulescu, Alina, Giurgiu, Adriana, Pop Coțuț, Ioana (coord.) (2010). *Diagnoza economică a județelor din vestul României*, vol. 1-6, Editura Universității din Oradea
- Dodescu, Anca, Giurgiu, Adriana, „The Gender Gap in Entrepreneurship in Western Romania”, *ECMLG 2010 Conference Proceedings „6th European Conference on Management Leadership and Governance ECMLG 2010”*, 2010, pp. 111-119
- Holtz-Eakin, D., Rosen, H.S. (2004). *Public Policy and the Economics of Entrepreneurship*, MIT Press
- Parker, S.C. (2009). *The Economics of Entrepreneurship*, Cambridge University Press
- Urban, B. (2010). *Frontiers in Entrepreneurship*, Springer Publishing
- Watson, J. (2010). *SME Performance. Separating Myth from Reality*, Edward Elgar Publishing
- Schwartz, E., „Entrepreneurship: A new female frontier”, *Journal of Contemporary Business*, 5 (1), 1976, pp. 47-76
- *** European Commission (2008, 2009, 2010) Eurostat, [online] <http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/themes>
- *** European Commission (2008,2009,2010) *The Observatory of European SMEs*, [online] <http://ec.europa.eu/enterprise/policies/sme>
- *** *OECD Studies on SMEs and Entrepreneurship SMEs. Entrepreneurship and Innovation*, 2010

- *** *Oficiul Național al Registrului Comerțului (2009)* Anuarul Statistic al României (2007, 2008, 2009)
- *** Direcțiile Județene de Statistică Maramureș, Satu Mare, Bihor, Arad, Timiș, Caraș-Severin (2007, 2008, 2009); European Commission (2008, 2009, 2010) Eurostat
- *** „A guide to womenomics. The future of the world economy lies increasingly in female hand” (2006), *The Economist*, Apr. 12th 2006, [online],
<http://www.economist.com/node/6802551>
- *** „*The Economic Crisis: The Impact on Women*”, USAID, [online],
http://www.usaid.gov/our_work/cross-cutting_programs/wid/WID_FACT_SHEET_Gender_Economic_Crisis_v2.pdf
- *** *Politica UE privind ajutoarele de stat: Regulament general de exceptare pe categorii de ajutoare*, [online],
http://ec.europa.eu/competition/state_aid/legislation/gber_citizen_summary_sheet_ro.pdf
- *** Rezoluția Parlamentului European din 24 martie 2009 conținând recomandări către Comisie privind o inițiativă europeană de dezvoltare a microcreditelor în sprijinul creșterii și ocupării forței de muncă (2008/2122(INI)), *Jurnalul Oficial al Uniunii Europene*, 24 martie 2009, [online],
<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2010:117E:0085:0090:RO:PDF>

How to Improve Small and Medium-Sized Enterprises Profitability by Practicing an Efficient Human Resources Management*

Antonio GARCÍA SÁNCHEZ

Universidad Politécnica de Cartagena, Spain
a.garciasanchez@upct.es

Dan POPESCU

Bucharest Academy of Economic Studies
dan.popescu@man.ase.ro

Iulia CHIVU

Bucharest Academy of Economic Studies
iulia.chivu@man.ase.ro

Alina CIOCÂRLAN-CHITUCEA

Bucharest Academy of Economic Studies
alina.ciocarlan@man.ase.ro

Daniela Oana POPESCU

Bucharest Academy of Economic Studies
daniellapopescu@yahoo.com

Abstract. *In The European Union's country members, small and medium-sized enterprises (SMEs) play an essential role in economic life, having special features that make adaptation process to the contemporary economy easier. Small and medium sized enterprises (SMEs) are the most dynamic and vital factor of progress in the contemporary society, main generator of economic performance and substance in any country, employment opportunity provider for most of population, major contributor to the national budget, and engine to improve the living standard of the population. SMEs represent 99% from all enterprises, drawing up the main human resources agglomeration.*

* Ideas in this article were presented at the Symposium „The global crisis and reconstruction of economics?”, 5-6 November 2010, Faculty of Economics, Bucharest Academy of Economic Studies.

In the contemporary economic context, SMEs should act as learning entities, by developing the most important resources they own: the human resources.

Human resource development (HRD) has gained a permanent role within SMEs, agencies and nations, increasingly not only as an academic discipline, but as a central theme in development area. Being a combination of training and education, in a broad context of adequate human resource policies, HRD ensures the continual improvement and growth of both individual and organization.

Keywords: development, human resources, management, performance, SMEs.

JEL Codes: M12, M21.

REL Codes: 14C, 14D.

1. Introduction

The central idea of the present paper is that organizational performance is explained through the management ability to use and develop the human resources knowledge and competences. The welfare and the development of human resources from a field of activity act like a cycling system: positively motivated employees increase the profitability rate of the company. Profitable companies positively influence the prosperity of their field of activity and, moreover, of the national economy. Therefore, the living standard of the population rises, and the developing level of human resources as well. The sample of companies is represented by the small and medium sized enterprises (SMEs) from Romania.

SMEs represent the most numerous and important category of enterprises, with multiple economic, technical and social functions. SMEs are the most dynamic and vital factor of progress in the contemporary society, main generator of economic performance and substance in any country, major contributor to the national budget, and engine to improve the living standard of the population. SMEs represent 99% from all enterprises, drawing up the main human resource agglomeration. SMEs generate the most of Gross Domestic Product (GDP) in every country - usually 55% – 95%, provide employment for most of population, and generate a major part of the technical innovation applicable in the economy (White Charter of Romanian SMEs, 2009, p. 15).

Furthermore, the higher flexibility of SMEs, the permanent contact of the entrepreneur with the organization, the capacity of producing goods and services to satisfy different needs and demands, the organizational environment favourable to change and innovation represent the elements that explain higher performance of the SME sector (Chivu et al., 2001, pp. 29-35).

In Romania the Small and Medium Enterprises (SMEs) have a young history of 19 years behind.

The article aims to outline the SMEs contribution within the Romanian economy, in order to identify and evaluate the importance of strategical use of human resources for improving organizational and economy performance.

As a structure, the article is divided in three main parts, having a logical connection: first one, the SMEs place and role within the Romanian economy, that contains a presentation and evaluation of the SMEs distribution and performances, strongly influenced by the economic environment evolution.

The second part refers to human resource importance for obtaining sustainability and profitability. Human resources development refers to people gradual progress, reached by earning of knowledge, abilities, skills, and materialized by attitude and behaviour changes, that directly influences professional performances.

The third part consists of establishing *the competences profile building process for professional improvement* that has favourable results for employee and organization.

2. The SMEs place and role within the Romanian economy

2.1. SMEs from Romania

During 1990-1992, industrial production slightly fell and unemployment rate sluggishly increased. In the next few years, 1993-1995, industrial production and productivity values grew, the unemployed level has stabilized, correlated with relatively significant development of SMEs, although such organizations were not in the forefront of legislative and executive attention.

Between 1996-2000, the number of established SMEs reduced, simultaneously to increasing activity reducing decisions. Causes that have contributed to this undesirable evolution were the unfavorable general economic situation and refuse of according special treatment of SMEs, in order to encourage conducting business (Archibugi et al., 2001, pp. 21-23).

After 2000, SMEs have experienced an upswing, by having a favorable macroeconomic environment as background: recovery of industrial activity, rapid growth of service sector development, construction and trade domains dynamics, increase of domestic and foreign investment, faster imports growth compared to exports growth, and strengthen economic connections between the Romanian economy and the European Union's economy (Romanian Government SMEs Annual Report, 2007, pp. 40-48).

The following consequences refer to the SMEs sector development: number of SMEs in Romania increased with approximately 20-35 thousand annually; technical and massive imports of high technology have encouraged SMEs major refurbishment; modern management, marketing and financial approaches have proliferated; new forms of SMEs (clusters, networks of firms, industrial parks, spin-offs) have appeared; use, on a wider range of activities, of modern electronic forms (e-commerce, e-banking, e-learning) has noticeably increased (Nicolescu, 2008, pp. 235-245).

It is widely recognized the fact that *SMEs became the most generous source of employment supply, both in Romania and in western countries.* But considering SMEs only as means of absorbing workforce would significantly reduce their role in the economy and society. SMEs play an essential role to foster a culture of competition based on higher flexibility and productivity. Widening the angle of approach, SMEs promote individual and organizational behavior change (Romanian Government SMEs Annual Report, 2007, pp. 45-53).

2.2. General view upon Romanian economy during 2004-2009

The main macroeconomic indicators to outline the economic and social context in which SMEs operate are presented in Table 1.

Annual GDP growth was significant up to 2008, higher than the average European Union level; furthermore, these positive results were recorded as a result of particular SMEs contribution, representing a dynamic sector, that, in spite of pessimistic appreciations, manages to continually develop and adapt to the requirements of a functioning market economy.

The process of sustainable economic growth, installed since the country preparation for The European Union's membership, has continued the positive evolution, although not at the same rates and allowances as in the years prior to accession. Thus, in 2007, GDP grew of 6%, compared to 7.9% level achieved in 2006; despite lower economic growth achieved in 2007, the economic development was characterized as stable, healthy. Values of macroeconomic indicators in 2008 confirm the hypothesis (annual growth rate of GDP is 7.1%, GDP per capita reaches the highest value in the last five years, of 23,440 lei per capita).

The main growth influence factors continued to increase domestic consumption of goods and services and increase of investment flows to Romania, especially in the first semester of 2007, as shown in The Romanian National Bank's Annual Report, referred to as the main source of macroeconomic data.

Severe and highly synchronized reduction of global economic activity had effects in the main macroeconomic developments in Romania: annual GDP growth turned sharply negative in 2009, which seriously affected both public and private sector: the number of layoffs increased by 4.4% (approximately 212,000 people became unemployed in 2009), a number of SMEs (especially microenterprises) were vanished (the number of SMEs has decreased by about 10%). The budget deficit increased by 47.65% (in 2009 compared to 2008, the budget deficit turned from 24,654.9 million lei to 36,400.6 million lei). The value of imports and exports declined as a result of global economic context pressures and negative Balance of Foreign Trade value reduced to 6,754 million Euro, the lowest value recorded since 2005.

Inflation rate, measured by consumer price index, has continuously decreased after 2000, reaching its lowest level in recent history (i.e. 4.9%) at the end of 2007, compared to 6.6% value of the previous year. This fact reinforced the tendency installed approximately three years ago, meaning the level of a single-digit before the comma inflation, and reducing the difference between Romania and the level of the other European Unions country members. After an

increase of 1.4% in 2008, explained by higher incomes and increased consumption, the inflation rate reached 4.74% in 2009, due to lower domestic consumption and due to state intervention in the economy.

In 2007 and 2008, unemployment rates maintain at a stable level of 4.1% - 4.4%, correlated with economic growth; redundancies in the past year announced emerging economic and financial crisis slumped the value at 7.8%, the highest rate since 2004.

Macroeconomic indicators data, represented in Table 1, outline the two major economic events in the considered period: firstly, economic and social context have been favorable, encouraging SMEs development; secondly, the SMEs development has generated benefic economic effects throughout the economy.

Table 1

**Evolution of main macroeconomic indicators of Romania,
between 2004-2009**

Indicators	2004	2005	2006	2007	2008	2009
Total GDP Nominal values (million Lei)	246,469	288,176	344,536	404,709	503,958.7	467,673
GDP Real Annual Growth Rate (%)	8.5	4.4	7.9	6.0	7.1	-7.2
GDP / capita (Lei / capita)	11,018	13,327	15,962	18,791	23,440	21,752
Inflation Rate (%)	11.9	9.0	6.6	4.9	6.3	4.74
Employed Population (thousands persons)	9,158	9,147	9,313	9,353	n.a.	n.a.
Employees (thousands persons)	4,469	4,559	4,667	4,720	4,806.0	4,594.6
Private Sector Employees (thousands persons)	2,259	2,575	2,726	-	-	-
Unemployeers (thousands persons)	558	523	460	368	403,4	709,4
Unemployment Rate (%)	6.3	5.9	5.2	4.1	4.4	7.8
Foreign Trade Balance (million Euro)	-5,323	-7,806	-11,759	- 17,586	-18,372	-6,754
External Debt (million Euro)	18,298.0	24,641.5	28,628,5	36,728.2	51,761.8	64,207.7
Budget Excess / Deficit (million Lei)	-3,693.3	-2,268.4	-5,099.8	-9,448.9	-24,654.9	- 36,400.6

Source: <http://www.bnro.ro/Publicatii-periodice-204.aspx>, Monthly Bulletin, December 2009, accessed on 29.03.2010.

2.3. The SMEs performances

The concept of performance is reflected in the literature with different meanings, for instance: successful result of an activity, action, and in economic field, with the meaning of profitability, productivity, efficiency (Vâlceanu, Robu, Georgescu, 2005, p. 225).

Performance refers to superior results achieved by businesses (i.e. SMEs) at a specific moment in time (2009), compared to the previous period.

In 2009, the majority of SMEs, for all kinds of size, recorded lower performance than in 2008 (with values between 54.38% to 62.10% for micro and medium enterprises). In this case, the highest percentage relates to medium-sized enterprises for, as logical approachment, the performance of a medium enterprise (either higher or lower) is generally easier to evaluate than the performance of a microenterprise.

Superior performances correspond to 13.87% of microenterprises, 13.83% small enterprises and 13.71% medium enterprises, which indicates a uniform evolution according to size classes, while lower performances correspond to over 50% of enterprises, for all categories of sizes.

Predominant among SMEs performances are the negative evolutions, as a result of difficulties and risk of bankrupt registered inversely proportional to the size of the company. The percentage of SMEs that restricted their activities has increased simultaneously with the increase of their size. The increase in the size of organization leads to the diminution of its vulnerability to baneful contextual evolutions, as well as the reduction of flexibility, of its capacity to adapt in time to the changes of the business environment.

Table 2
SMEs performances in 2009, comparative to 2008, by size classes (%)

	SMEs Performances in 2009, compared to 2008	Enterprises		
		Micro (0-9 employees)	Small (10-49 employees)	Medium (50-249 employees)
1.	Superior	13.87	13.83	13.71
2.	Identical	31.75	30.55	24.19
3.	Inferior	54.38	55.62	62.10

Source: White Charter of Romanian SMEs 2009, p. 142.

We consider that all the specific characteristics of SMEs define a profile of those which can harmonize with the specific contemporary economy characteristics. Distribution of enterprises performances differs according to the fields of activity, as typological economic activity branches. The fields of

Transport and Tourism, with 23.27% and 21.05% increase, have the most significant positive evolution. The other extreme is the Industry field with 11.87% increasing, meaning fewer than all the others activity branches (Table 3).

Table 3
SMEs performances in 2009, comparative to 2008, by fields of activity (%)

	SMEs Performances in 2009, compared to 2008	SMEs by activity branches					
		Industry	Constructions	Trade	Tourism	Transport	Other services
1.	Superior	11.87	15.38	11.69	23.27	21.05	16.74
2.	Identical	29.22	24.04	35.07	40.00	26.32	25.99
3.	Inferior	58.90	60.58	53.23	40.00	52.63	57.27

Source: White Charter of Romanian SMEs 2009, p. 143.

Approximately 30% of SMEs recorded similar performances, while only about 13.8% of SMEs were able to increase their results in 2009.

Table 4 represents a synthesized correlation between SMEs performances evolution and distribution according to size classes. As general tendency superior performances are predominant (58.74%, more than half), while the identical performances are situated around middle-distance, but without reaching the 50% level (48.09%).

Enterprises with inferior performances represent less than 30% of all SMEs, but as an alarm signal, their number increased with 20.06% (more than double) in 2009, compared to 2007.

These differences highlight entrepreneurial environment specificities, having as a result differentiation between social and economic ambiental conditions.

Over half of SMEs have reduced activity in 2009 compared to 2008, approximately 20% of them maintained their activity at the same parameters (for each of the three types of SMEs), while 5% were able to record superior results in their activity. A percentage between 12.75% and 15.15% for medium to micro, no longer resisted on the market resistant and went bankrupt.

Reduced resistance to external factors caused by SMEs small dimension generated a higher proportion of enterprises which went bankrupt in 2009, compared to the other two types: small and medium enterprises (Beardwell et al., 2001, p. 273).

Table 4

SMEs performances correlation in 2009/2008 and 2008/2007

(%)

		Enterprises with superior performances in 2009 compared to 2008	Enterprises with identical performances in 2009 compared to 2008	Enterprises with inferior performances in 2009 compared to 2008
1.	Enterprises with superior performances in 2008 compared to 2007	58.74	44.59	42.23
2.	Enterprises with identical performances in 2008 compared to 2007	33.57	48.09	30.02
3.	Enterprises with inferior performances in 2008 compared to 2007	7.69	7.32	27.75

Source: White Charter of Romanian SMEs 2009, pp. 144, http://www.mimmc.ro/files/Raport_Anual_IMM_2008.pdf, accesses on the 6th of April 2010, own calculations (the exchange rate Lei/Euro was considered to be 3,52 in 2006, 3,34 in 2007, 4,10 in 2009).

3. The human resources within SMEs

The average number of new employees and the average personnel turnover are directly proportional to the size of the companies. In point of average personnel increase expressed as percentage, on the contrary, microenterprises lead with 17.56%, followed by small companies (7.97%) and medium sized enterprises (5.16%).

Empirical research conducted over a number of years indicates that there is *a variety in the approaches adapted to human resource development within work organizations*. Variety in approaches is related to models of human resource development in at least two ways. First, different models inform practice in ways which lead to variety in approach. Second, discovery of variety in approaches leads to formulation of different and sometimes competing model of human resource development (Popescu et al., *Metalurgia International*, 2010).

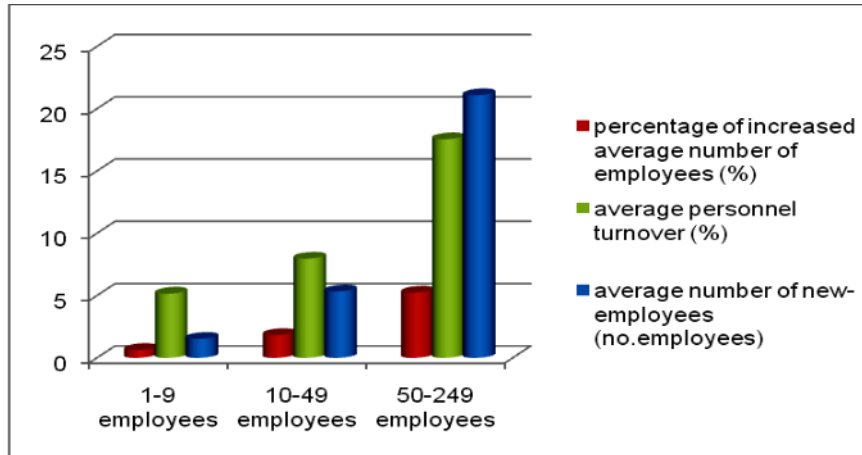
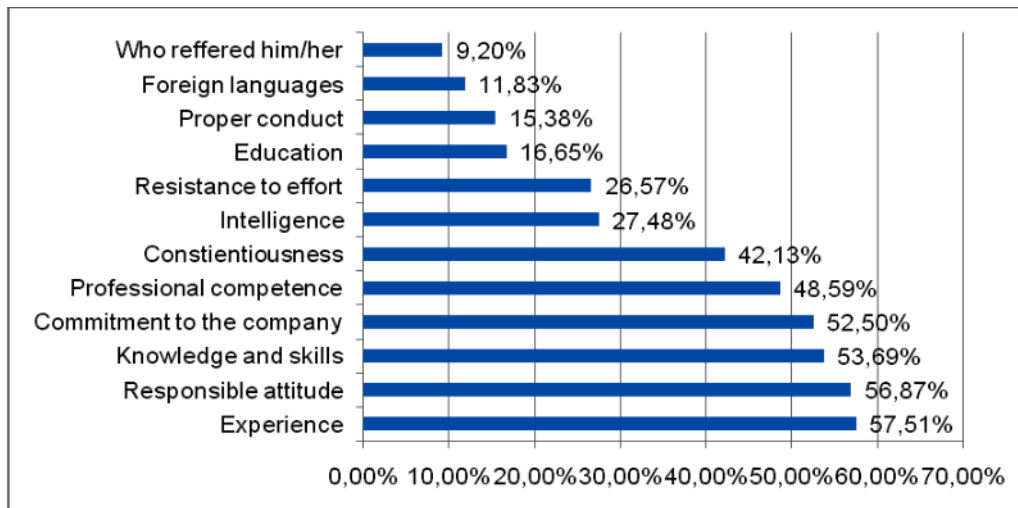


Figure 1. *Percentage of increasing average number of employees, average personnel turnover and average number of new-employees, by company size*

Figure 2 contains the most disseminated criteria that SMEs employers take into consideration in recruitment and selection processes, as experience (57.51%), responsible attitude (56.87%), knowledge and skills (53.69%) commitment of the company (52.50%) represent more that 50% of the cases.



Source: White Charter of Romanian SMEs 2009, p. 236.

Figure 2. *Frequency of SME employee assessment criteria*

Education is defined as activities which aim to develop the knowledge, skills, moral values and understanding required in all aspects of life rather than a knowledge and skill relating to only a limited field or activity (Vladoi, 2010, p. 805). Training is a planned process to modify attitude, knowledge or skill behaviour through learning experience to achieve effective performance in an activity or range of activities (Gilmore et al., 2001, p. 11). Its purpose, in the work situation, is to develop the abilities of the individual and to satisfy the current and future needs of the organization (Parrott et al., 2010, p. 200). *Developing people as part of an overall human resource strategy means the skilful provision and organization of learning experiences, primarily but not exclusively in the workplace*, in order that business goals and organizational growth can be achieved (Stewart, 1999, pp. 50-72). Such development must be aligned with the organization vision and longer term goals in order that, through enhancing the skills, knowledge, learning and innovative capability of people at every level, the SME as well as the individual can prosper (Harrison, Kessels, 1997, pp. 24-37).

A cursory examination and comparison of these definitions reveals many similarities. *Training and development directly refer to learning, while the third, education, imply learning since the activities referred to are intended to develop knowledge and skills, among other characteristics.* The definitions of training and development share a focus on and concern with the needs of organization and work (Alavi et al., 1999, p. 90). The term assumes that organisations can be constructively conceived of as learning entities, and that the learning processes of both organisations and individuals are capable of influence and direction through deliberate and planned interventions. Thus, HRD is constituted by planned interventions in organisational and individual learning processes.

4. Competences of human resources that managers should know about and make use of them

There are three main research stages (Argyris, 1978, p. 63):

- A. individual competences which sustain activities within organizations
- B. work group process which sustain activities within organizations – for medium and small companies
- C. organizational process (all employees considered).

4.1. Individual competences which sustain activities within organizations

Characteristics and comportamental describing:

- *Cognitive abilities*: academic intelligence, type of intelligence, new information analysis and useful information selection capacity,

establishing a connection between existing and systematized knowledge and new information, logical and long term memoration capacity, adapted form, situation and workload centered knowledge reactualization capacity, without difficulties.

- *Learning motivation*: curious, learning from pleasure, new information opening, ease of assimilating new information, looking for additional information, intrinsic motivated.
- *Work motivation*: need of being competitive, need of fulfillment; preoccupied of performance; sees organizational learning as a promoting way; works supplementary; allocates the leisure for workloads that imply organizational learning; achieves information that overcome his present workloads; is interested in training courses; professional training is considered to be an opportunity; connected to professional networking's.
- *Personality features*: tenacious, flexible, conscientious, paying attention to details, ethic behavior (is constant in thinking and facts, respects rules and social laws, is loyal to the organization), has initiative, autonomous, team spirit, with appropriate level of psychical energy, optimistic, sociable, communicative, with high emotional intelligence.
- *Self image*: confident, good self esteem level, self-knowledge and self-evaluation capacity.
- *Experience in the learning field*: professional training (has studies and abilities in the field, good professional training quality etc.); positive attitude towards learning, translated by existing and working schemes that sustain organizational learning.

4.2. Work group process which sustains activities within organizations

Work group dimensions and characteristics describing:

- *Functional-structural work group characteristics*:
 - Group dimension (small work groups are considered to facilitate organizational learning compared to larger groups);
 - Group structure (flat and flexible groups, with an established life duration considered to facilitate organizational learning compared to hierarchical, stiff structures, with no established life duration);
 - Group heterogeneity, groups that facilitate organizational learning are most likely heterogeneous but homogeneous (gender, age, training experience, age within organization etc.);
 - Group norms (flexible, adjustable, open to new);
 - Group roles (characterized by complementarily and reciprocity);

- Group cohesion (moderate cohesion is considered to facilitate organizational learning at a greater extent than high cohesion).
- *Work-tasks characteristics:* dynamic, diverse, changing, stimulating, challenging new work-tasks etc.;
- *Human resources management:*
 - People motivation
 - Offering positive feedback capacity
 - Establishing clear standards for a good performance capacity, correctly evaluating capacity
 - Team development and team members development support capacity
 - Empathic, assertive manifestation capacity
 - Achieving balance between control and authority delegation etc., participative management style
 - Clear vision regarding work group development through organizational learning
 - Creativity, analyzing available options from different angles capacity; searching new ways of improving self performance and team performance; takes into account market decision, technologies and people etc.
- *Work-tasks management:*
 - Choosing and defining objectives capacity, efficient resource management, crisis situation efficiency etc.;
 - The manager establishes a connection between work-tasks and learning-loans (identifies learning-loans connected to work-tasks, draws learning-loans, connects the loan with each individual learning capacity, allocates resources for learning, evaluates learning results, as a process and a product, rewards positive learning results, penalizes the lack of learning)
- *Ethic behavior:* honesty, altruism, generosity, disponibility for helping people in need, disponibility for sharing with others the learning results, for assuming responsibility in failure situations etc.
- *Communication:* empathy, verbal and non-verbal communication abilities, interpersonal efficiency (confident, motivated, demonstrate sensibility and tact in relationships, conflict efficient solvers, remain calm in critical contexts etc.), open group characteristic.
- *Type of centration:* centered on individual versus centered on group, centered on person versus centered on work-task.
- *Group instrumentation:* group position and authority within organization, client approach, acquisition, changing and creating knowledge meant to achieve organizational goals.

4.3. Organizational process

Dimensions and characteristics:

- *Organizational structure*: appropriate organizational structure (flexible, learning is directly dependent on the way knowledge is managed and work is organized); informal structure facilitates learning, adaptation and change; encourages leaning beyond formal frontiers;
- *Organizational culture*: a culture that treasures value, rewards progress is not only result focused, facilitates personal development, promotes the new, sees training as an investment, rewards learning, sees learning as the key element for organizational success;
- *Organizational communication*: open organization, intergroup communication, the communication system sustains sideways information transfer, reduces passive accumulation of information points;
- *Organizational management*: direct and concrete management involvement in learning self control development, building mental models, sharing vision, team learning and using a systemic, overall thinking, systematically problem solving, experimentation, learning from own experience and others experiences, knowledge transfer abilities.
- *Organizational performance*: organizational efficiency and effectiveness, economic stability, resources, dynamic evolution.

All these considered, key changes involving the transition to a competitive SMEs sector should take into consideration the following:

- creating and implementing human resources development strategies of SMEs, as a prerequisite to increase their performance in the new socio-economic context. SMEs tend to give greater importance to human resources than larger organizations, because of the simplified hierarchical structure, which promotes greater interaction between management and execution personnel, and, furthermore, higher interest and commitment of organization employees;
- supporting innovation in SMEs, argument sustained by increasingly development and implementation of scientific progress. Innovative characteristics of SMEs should be harnessed and transformed into a competitive advantage in all sectors;
- funding research and development from the state budget to address some of the issues facing SMEs. Currently, there is a gap between the contribution that SMEs have to GDP formation and the benefits received to be allocated for research and development.

5. Conclusions

Interaction with others, active participation to human resources development and individual performance recognition by others may be important incentive for further study and professional development. Improving individual performance generates, by extension, organization favourable outcomes. Ability to generate and use knowledge and innovation are the main sources of growth and competitive advantage.

There is a competitive advantage for an organization whose workforce can learn quicker than the workforce of other competing SMEs. In these settings, human resources development represents the solution that focuses on the organizations competencies at the first stage, training, and then developing the employee, through education, to satisfy the organizations long-term needs and the individuals' career goals and employee value to their present and future employers.

Development people as part of an overall human resource strategy means the skilful provision and organization of learning experiences, primarily but not exclusively in the workplace, in order that business goals and organizational growth can be achieved.

Human resource development has gained a permanent role within SMEs, agencies and nations, increasingly as not only an academic discipline, but as a central theme in development area. Being a combination of training and education, in a broad context of adequate human resource policies, human resource development ensures the continual improvement and growth of both individual and organization.

SMEs features allow easier adaptation to change imposed by the knowledge based economy, in particular economic sectors based on art techniques and technologies, the permanent renewal is key to success.

The higher flexibility of SMEs, the permanent contact of the entrepreneur with the organization, the capacity of producing goods and services to satisfy different needs and demands, the organizational environment favourable to change and innovation represent the elements that explain higher performance of the SME sector.

Unlike larger organizations, SMEs enjoy a number of advantages, such as small number of employees, which facilitate communication and propagation of change within the organization, a smaller proportion of total tangible assets, economic and relatively simple management, adaptability and flexibility to changing external environment, entrepreneurial spirit, faster growth, development potential, but more intense interpersonal relationships and greater cohesion.

The SMEs in Romania offer the necessary conditions for obtaining profitability and promoting human resources as strategic ones, with some limitations derived from their insufficient maturation in these 19 years of transition from the communist regime to democracy.

References

- Archibugi, D., Lundvall, B.A. (2001). *The Globalizing Learning Economy*, Ed. Oxford University Press, Oxford, 2001, pp. 21-23, ISBN 978-0199258178
- Argyris, C., Schön, D. (1978). *Organizational learning: A theory of action and perspective*, Addison-Wesley, Reading, Mass., pp. 57-63, ISBN 978-0201001747
- Alavi, M., Leidner, D., „Knowledge Management Systems: Emerging Views and Practices from the Field”, *the 32nd Hawai International Conference on System Sciences*, 1999, pp. 13-27
- Beardwell, I., Holden, L. (2001). *Human Resources Management, a Contemporary Approach*, Third Edition, Ed. Financial Times Prentice Hall, pp. 272-273, ISBN 0-273643169
- Chivu, I. (coord.), Popescu, D., Cucu-Ciuhan, G., Ciucurel, M., Ciocârlan-Chitucea, A., Popescu, D., Stănescu, A. (2009). *Învățarea Organizațională și Dezvoltarea Resurselor Umane*, 2009, pp. 29-35, ISBN 978-6065052567, Editura ASE, București
- Gilmore, A., Carson, D., Grant, K., „SME Marketing in Practice”, *Marketing Intelligence & Planning*, Vol.19, No. 1, 2001, pp. 6-11, ISSN 0263-4503
- Nicolescu, O., Nicolescu, C. (2008). *Entrepreneurship and Small and Medium Enterprises Management*, pp. 234-245, ISBN 978-9737094209, Editura Economică, București
- Parrott, G., Roomi, M.A., Holliman, D., „An analysis of marketing programmes adopted by regional small and medium-sized enterprises”, *Journal of Small Business and Enterprises Development*, Vol. 17, No. 2, 2010, pp.184-203
- Popescu, D., Chivu, I., Scarlat, C., Ciocârlan-Chitucea, A., Popescu, D.O., „Human Resources Development within Romanian Small and Medium Enterprises in a Knowledge Based Economy”, *Metalurgia International*, vol. XV, nr.7/2010, pp. 48-52, cotație CNCSIS: ISI ISSN 1582-2214
- Redman, T., Wilkinson, A. (2006). *Contemporary human resource management: text and cases*, 2nd Edition, Pearson Education, p. 418, 2006, ISBN 0-201-59613
- Vladoi, A.D., Mihoc, F., Curmei, C., „Specific Approaches of Modern Technology Marketing within SMEs on B2B Market”, *Proceedings of 3rd International Conference on Entrepreneurship, Innovation and Regional Development*, ICEIRD 2010, Novi Sad, Serbia, May 27-29, 2010, pp. 802-809
- Romanian Government, *Annual Report 2007 – Small and Medium-Sized Enterprises of Romania*, Project financed within The European Union's PHARE Programme, ISSN 1454-0576
- White Charter of Romanian SMEs*, Seventh Edition, Bucharest, 2009, pp. 130-145, ISBN 978-9731806365
- http://www.mimmc.ro/files/Raport_Anual_IMM_2008.pdf, accesses on the 6th of April 2010, own calculations (the exchange rate Lei/Euro was considered to be 3,52 in 2006, 3,34 in 2007, 4,10 in 2009)
- <http://www.bnro.ro/Publicatii-periodice-204.aspx>, Monthly Bulletin, December 2009, accessed on 29.03.2010

Time and Causality in the Economic Process – a Critical Approach Based on Consistency Criteria*

Cristina TĂNĂSESCU

University „Lucian Blaga”, Sibiu
cristina.tanasescu @ ulbsibiu.ro

Vasile BRĂȚIAN

University „Lucian Blaga”, Sibiu
bratianvasile@yahoo.com

Camelia OPREAN

University „Lucian Blaga”, Sibiu
camelia.oprean @ ulbsibiu.ro

Abstract. *Our paper proposes a critical analysis based on criteria of consistency of the fundamental concepts underlying the comprehensive description of economic process, namely: time, context and causality. Issues of such action taken by us arise from the existence of the fact that the emergence of new paradigms, amid an economic complexity, should include elements of theoretical, instrumental and methodological nature. Moreover, dominant economic science, at this time (positivist), is subject to an epistemological imperialism exercised by Newtonian mechanics, without one's own epistemology. Regarding the underlying causality explaining the economic process, we find that, yet at this time, it is a singular and efficient one (in the Aristotelian sense), but not a teleological one, so we wonder whether the final causality (purpose form) may better explain the economic process and his completeness, and in this sense, the shaping of new paradigms based on premises other than those already existed, in understanding the economic process.*

Keywords: economic process; economic time; final cause.

JEL Codes: A11, B4.

REL Code: 2B.

* Ideas in this article were presented at the Symposium „The global crisis and reconstruction of economics?”, 5-6 November 2010, Faculty of Economics, Bucharest Academy of Economic Studies.

Introduction

Our paper proposes a critical analysis based on criteria of consistency of the fundamental concepts underlying the comprehensive description of economic process, namely: time, context and causality. Issues of such action taken by us arise from the existence of the fact that the emergence of new paradigms, amid an economic complexity, should include elements of theoretical, instrumental and methodological nature. Moreover, dominant economic science, at this time (positivist), is subject to an epistemological imperialism exercised by Newtonian mechanics, without one's own epistemology. And as a consequence of this, we note that there is a historical stereotype regarding the construction of instrumental and methodology elements used. In this respect, criticism undertaken by us wants to be one of the highlighting the weaknesses that characterize the economic science in evolution, in order to exclude a cumulative process, achieved by extending or articulating methodological assumptions and existing tools (based on optimality criteria – the current paradigm of economic science), aiming their reconsideration, based on an exegesis of the fundamental attributes that characterize the economic process, namely: time, context and causality. Regarding the concepts considered by us, that describe the economic process, we consider that they are not sufficiently substantiated and understood logically, in terms of describing the natural reality of the emerging economic process. In this context, first, we note that the time variable in the economic process is not influenced by the properties of economic process measured by it. Thus, time assigned to the economic process is considered absolute (ie has value in itself and for itself), being independent of the economic process itself. In other words, time is considered a measure of the economic process through economic phenomena (which give the measure of economic process), but not intrinsic process that is measured. We note in this connection that it is not a measure of the economic process, but rather to quantify it. Regarding the underlying causality explaining the economic process, we find that, yet at this time, it is a singular and efficient one (in the Aristotelian sense), but not a teleological one, so we wonder whether the final causality (purpose form) may better explain the economic process and his completeness, and in this sense, the shaping of new paradigms based on premises other than those already existed, in understanding the economic process. Regarding the context of economic process, we believe that the economic process structure may describe broadly what exists at some time in defining and understanding the economic process through economic phenomena. Our approach to the criticism of contexts - that give rise to economic processes - relies on the fact that, in large part, their

understanding follows a cumulative process by extending the methodological assumptions based on historical stereotypes, but not on ahistorical in substantiation of paradigms. In summary, the purpose of our paper is primarily an attempt denial of conjectures underlying, fundamentally speaking, the economic process and the reconsideration of their description.

The issue of the economic process

Whenever we wish to ponder over the concepts of time and causality within the economic process as a first step we need to establish, at a conceptual level, the way we can define the economic process or mostly it is from a Kant like outlook that getting away from the extensive logic⁽¹⁾ an attempt for a judgement, in other words a unitary representation of a diversity⁽²⁾.

We find through the philosophy of science that the process represents the form through which a phenomenon appears, more exactly the evolution that is noticed for a phenomenon, the latter being the knowable version of a noumenon.

There is a paper in this field that draws our attention, signed by professor E. Dinga (2009, p. 389), where it is stated that the first step in tackling the economic process is the identification of its attribute or characteristic of something belonging to the economic. Therefore, as the author states, defining the economic comes with some difficulties of epistemological nature and of methodological nature as outlined through: *the issue of the proximal genre and the issue of the specific difference* and from a methodological point of view through the issue of the contingent and of the instrument. It is said, in other words, that from an epistemological point of view, the economic has to be framed within a genre which should comprise it from a denotative point of view and the concept should not create confusion with other species, namely from a methodological perspective. A definition as such must not ignore the rational human being, therefore it will be a contingent definition, not a necessary one and the instrumental way to recommend is the logic.

With these grounds the result regarding the attributes that an act must check in order to be considered as economic are the following:

- *the interventionist nature in nature;*
- *the purpose of the material exchange between the human being and nature;*
- *the existence of an artefact diaphragm this intervention is being exercised.*

When referring to the economic act we remind that this is being produced only within the temporal coordinate and we find this characteristic as being attributed to defining the economic process with the same denoted

(significance), with no qualitative difference, but one in degree, of quantitative nature given by the existence of a group of individuals after a aggregation criteria not only a single individual.

E. Dinga (2009, p. 392) states that the economic process is substitutable to the economic act, being an artefact as such, namely an entity which as emergent is generated by a deliberate decision on purpose. He also outlines that the possibility of measuring in any way of the economic process is being done through the economic phenomenon. It is *the measured expression of an economic process* (Dinga, 2009, p. 394).

The problem within this context is linked to which may be the form through which we can know an economic process taking into account the understanding and explanation (the two poles of knowledge) and the instrument at hand seems to be the system, namely the “*glasses*” through which we perceive the economic reality that surrounds us.

We now can notice that the economic process is being regarded through “*glasses*” like: efficient causality, time and space (as absolute) the economic issue exogenous with the economic process and the inexistence if non-alignment.

Therefore, many aspects that characterise the economic process are mechanistic borrowed from Newton, being far from the economic reality surrounding us, and in this respect our curiosity gets towards a better approach of the components regarding the economic process, time like, causality like.

The issue within the economic process of its specific time

We must admit the fact that the economic science has no proper epistemology and, from a methodological and instrumental point of view, it has borrowed from physics, mostly from Newton, many methods and techniques through which there has been the attempt for a statistic later ratifying for them on the basis of several observations.

Time, as being a component of the economic process, is considered in the study of economic phenomena as Newton like, being absolute (namely, having value in itself and for itself, not being influenced by the properties of the economic process it measures); it is also called time clock or physical time.

What is the connection of such an approach as opposing what we discover with natural sciences referring to such abstract concept such as time? Is this thing important? We believe it is!

With a short incursion in time we find out that since 1715 Leibnitz, while corresponding with Clark (Vailati, 2000, pp. 110-1225), objects against space and absolute time within the physical processes. The most famous objection of Leibnitz against space and absolute time entails the principle of sufficient

reason and the one of undistinguished identities. Space and time, being homogenous totalities, undifferentiated, and their parts, simple potentialities, cannot exist as far as what is real and composed can have only real divisions. His standard arguments against space and absolute time were based on his concept on the continuous.

The consequence was that, at the beginning of the century, it was believed that everything could be understood on the basis of the continuous mechanics. Everything that had to be measured was a number of indexes for elasticity, conductivity but this hope was shattered by the discovery of the atomic structure and the quantum mechanics (Hawking, 2005, p. 57) and later the theory of relativity ends the idea of absolute time.

In economy the concept of time for the economic process is but a unity for measuring it from the outside and the economic phenomena studied are but in the form of some dynamic trajectories with attributes such as: determinism, regularity, reversibility.

We draw the attention that our approach on an abstract concept such as time and its connection within understanding the economic process can appear as lacking content, but if we think within the finance world the pattern of assessment the financial assets within the continuous time with Wiener processes is one of the well known and accepted pattern for assessing the shares. Nevertheless, speculations on the stock exchange, minimal financial settlement, financial innovations entailed the creation of a speculative balloon and with the speculations on the real estate market brought about the collapse of the financial system on the Wall Street and the world recession.

We wonder how can this be possible with such efficient instruments that have in view the stochastic pattern and complicated processes? How can speculative balloons come out, bear and bull where the price of assets rises much above its value? Is the economic reality different from the one we had built along the years? We wonder if the chaotic character of an economic process we cannot understand – bank or stock exchange crash that were not prevented by any index used to measure the process – or we cannot describe, with our stochastic equations or the differentiated ones, results from the fact that we do not have it properly measured? Something may be wrong regarding our concept on the economic and social reality since we lack the ability to forecast, to predict through instruments created along the years within the economic science.

We acknowledge the fact that the development of biology and of microphysics entailed the recognition of the fact that each type of process develops within its own time, a specific one with its own rhythm and cyclic approach. In this respect the epistemological approaches between economy and biology were fruitful as accepting an economic time that characterises through a

beat specific for the economic process, being addicted by the latter and which changes after the characteristic of the respective process.

It is curious that the economic time has not been treated systematically yet and this may happen because of the pragmatic side of the economic that may have discouraged the philosophic approaches or we may have thought that the way we grasp the economic reality is an intellectual honest one. Unfortunately, we notice that the “glasses” that we have created, namely the system we try to understand the reality of the economic processes, are not appropriated, or at least today economic reality is different from what we imagined. In this respect it may be good that some hypotheses and conjectures be repressed factually or taking into account logical grounds within the pragmatic environment proposed by Popper.

Considering this, maybe the naïve empiricism (N. Taleb) based on examination brought about the failure of the economic science, namely confirmed facts meaning not necessarily proofs that the economic science is on the right way. What we want to outline is that the approach towards the truth is backed by negative examples (the economic crises), not by examinations! It is wrong to build a general rule taking into account observed facts. If time is taken for granted when studying the economic processes as physical time this does not entitle us to state that the measure unity is a good one because by forgery the opposite comes out. Referring to Karl Popper (2001, p. 68), our tendency is the one to look for steadiness in economy and to enforce laws but this brings about a psychological phenomenon of the dogmatic thinking: we anticipate regularities everywhere, even where they do not exist. We are ready to consider events that do not give up to such attempts as a “substance noise” and we still persist in our expectations when they are inadequate and we should accept the failure.

Our scepticism regarding the wrong way to grasp the time for the economic processes refers to the fact that the measurements we make are but interval measurements not punctual ones. And so the economists come with the speculative bubble which can explain the financial and economic crises.

This represents a certain recognition of the existence of the economic time (of the time as a process) which is not seen phenomenological and which is not in relation with the economic processes that we know. There is still a problem regarding the way we perceive time, but what may be the solution?

An attempt to take into account referring to a possible solution we may find in the paper “The Inertial Phenomenon within the Economic Process” (Dinga, 2001, p. 73), where we find out that if we need regularities in order to understand, then an essential condition must be looked up for the working of the clock, namely the uniformity of the measure⁽³⁾. This quality of the clock

cannot be found within the physical time because of the no experimental character of the economic process as well as its irreversible nature⁽⁴⁾.

The solution is an economic time having uniform ticking specific for each economic system. In other words, the proposal is of creating a “device” ready to ensure the formation of the temporal scale, accumulation of *economic quantum*⁽⁵⁾ equivalent to “passing” a unity of economic time and which expresses the quantity of economic activity produced within a unity of economic time. *The economic quantum* being considered blurred entities from a quantitative and qualitative aspect, the beat of the economic time is the temporal measure of producing an economic quantum.

According to this approach there is a difference of the speed regarding the economic time as opposing the physical time, explained through the amassing of quantum or by their decrease.

The result of this approach can be summed up like that: if the speed of the economic time is higher than of the physical time, we register disasters and if it is lower then we have inactivity, inertia.

We then figure out the introduction of discontinuity regarding the economic process and it is remarkable from a scientific point of view with outcomes on modelling with uneven functions in economy.

The issue within the economic process of causality

The typology of causality was introduced by Aristotle and ever since nobody has managed to add new causes. The world of the science is polluted by this typology and the scientific research asks for determining the causes and explanations.

We try a short presentation of the causes that regard the scientific explanation and then we will try to point out in what respect they are to be found in the analyses we make on the economic phenomena and the authenticity of the conclusions.

The causality in the Aristotle meaning comes out as:

- *material cause*, namely the matter a thing is made of;
- *formal cause*, namely the form a think can take;
- *efficient cause*, propelling cause that precedes the outcomes;
- *final cause* or the purpose cause which comes after the outcomes.

We know the fact that the economic process is a completely causal process. Which is the type of the cause we have in view when our knowledge appeals to explaining an economic phenomenon?

At present we believe that the type of cause through which we try to understand the outcomes is linked to the nature of the efficient cause. How does

this form of causality explain sufficiently well the outcomes we observe when we have an economic phenomenon? The answer is as clear as possible. There are economic processes such as financial crises that we cannot anticipate. We also ask ourselves how can it be possible that when such crises took place in the past it seems impossible to be anticipated since the causes are known (being previous to the outcome and found in the history of similar processes). The causality we use in economy might not be the proper one and this happens due to the fact that we skip over an important thing, namely that the economic subject is being considered apart from the object, namely of the economic process.

We stick to the following presentation of the possible aspects of causality (Botezatu, 2002, pp. 174-175):

- *the causality as ontological relation;*
- *the causality as phenomenal relation*
- *the causality as perceptive relation.*

Regarding the causality as ontological relation this is in connection with its metaphysical and theological origin, being a relation of producing where the outcome is the world as totality. The particularity of it is from effect to cause.

The causality as phenomenal relation, this is but creation, mostly of the positivist philosophy. It is about following the causal ratio used in science far away from the metaphysical elements. The interest is not for the way the phenomenon is produced but the finding and the proof of the existent causal ratio among those to be observed.

The causality as perceptive relation (in the way Berkeley, Hume, Mach tackled it), the necessity of the causal ratio has the origin neither within the process of producing, nor the invariability of experience but in the structure regarding the human spirit or divinity.

Economics does not use the empiric version of causality but its ontological determinist conception. Our first conclusion is that economy can be the most isolated field with few examples from science, being limited to efficient causalities, specific for Newton mechanics. If the economic phenomenon has all conditions for the physical system, its projection into the future can be done theoretically. But then our question is: if we know the type of the cause, why are there possible stock exchange crashes and economic crises? We may not have understood that a physical system is not the equivalent of a social one and when social matters are being involved we find a difficult obstacle: economic phenomena that produce economic processes entail the involvement of humans free willed and determined.

We consider then that determinism and efficient causality is not suitable to understand the economic processes, but the final causality. An argument would be that we are not able to understand the scenario that produces the event. Under the present crises the rating agencies – Moodys, Fich, Standard&Poors – should have

signalled in time on what was happening to credit security, but they could not have got a good commission from those entities which were to be assessed as well as the promise for future contracts. So, one of the causes of the crisis is a teleological one, and thus more than half of the profits for the rating firms had the granting of AAA rating for some exotic financial products.

The financial crisis is caused by non involvement of the state or is it a consequence of the interference of the state in market activity? There are some who claim that there are no balloons or illusory booms and the markets could be efficient. Then why are there causalities of purpose type to get black swans? Because man exists and the institutions he created and indeterminism as well as risk taking are part of everything. If causality is of this nature, then why positive consequences of an action are to be advantageous only for its author while the negative ones have impact on the rest of us? Is this not today's situation? We should call for the uncooperative games of J. Nash, who demonstrates that each plays in the disadvantage for the others.

Regarding risk taking we should not forget that it entailed the disappearance of many species. Taleb was right that the human mind suffers when in contact with history (Taleb, 2009, p. 34), namely:

- the illusion of understanding, the way in which each believes to understand properly what is happening in a world far more complicated than one can understand;
- the retrospective distortion, the way we assess some aspects after the facts took place and we understand so little of them;
- the exaggerate assessment of information.

The conclusion we draw is that the method we use to understand is important, not the outcome. The “glasses” through which we are looking at the world become important. What we do not know becomes more important as the projection of the future on the paradigms from the past might be of no help.

Conclusions and personal considerations

Economics we must admit has no proper epistemology of its own and from a methodological and instrumental point of view it borrowed from physics, mostly from Newton mechanics, several methods and techniques through which they have tried a further statistic ratifying of them

Time as a component of the economic process is considered as Newton time, absolute, clock time or physical time.

The concept of time does not represent but an exterior unity of measure and the economic phenomena studied are but as dynamic trajectory with attributes such as: determinism, regularity, reversibility.

Our scepticism regarding the wrong way to perceive time for the economic processes is reflected by the fact that the measurements we do on observations are but interval ones, not at all punctual and because of this the economists think of the speculative bubble that can explain the financial and economic crises.

Economics we do consider does not make use of one might believe of the empiric version of causality, but its ontological, determinist conception. With these matters we outline a first conclusion, namely that economy may be the most isolated field, and the less examples from outside science may be found here, with the limitation to efficient causality, specific for Newton mechanics.

We claim for the normative method in economy and the integration of nonlinear equations in the study of the economic phenomenon to get the few outcomes that entail serious consequences and to create rules to guide us with economic activities, not mentioning that the markets are being settled as such by themselves.

Notes

- (1) Any one logic is extensive, consisting of a series of comments from the concept. For example, a thinker who speaks of non-contradiction and syllogistic logic is extensive.
- (2) Kant does not start its logical approaches to the concept. The reality of thought, for him, constituent, the first thought which is not the concept, it really is nothing but a derivative of the act of thinking.
- (3) must understand the measure uniformity retrieval times for the same measured whenever it is conducted under identical conditions.
- (4) will never be able to reconstruct an economic process in the same position, so we'll never be able to retrieve same physical duration of the process.
- (5) It should be understood as a quantum of economic action in a manner similar to Planck's quantum-induced energy in quantum mechanics.

References

- Botezatu, P. (2002). *Cauzalitatea fizică și panquantismul*, Editura Universității „Alexandru Ioan Cuza”, Iași
- Dinga, E. (2009). *Studii de economie. Contribuții de analiză logică, epistemologică și metodologică*, Editura Economică, București
- Dinga, E. (2001). *Fenomenul inerțial în procesul economic*, Editura Economică, București
- Hawking, St. (2005). *Visul lui Einstein și alte eseuri*, Editura Humanitas, București
- Popper, K. (2001). *Conjecturi și infirmări*, Editura Trei, București
- Taleb, N.N. (2009). *Lebăda neagră – impactul foarte puțin probabilului*, ediția a II-a, Editura Curtea Veche, București
- Vailati, E. (2000). *Leibnitz și Clark – corespondență filozofică*, Editura Tehnică, București

The Reform of the National Public Policies Process under the Influence of Europeanization Changes in the Policy-Making in Romania on Institutional and Legislative Level

Ani MATEI

National School of Political Studies and Public Administration, Bucharest
amatei@snsipa.ro

Tatiana-Camelia DOGARU*

dogaru_tatiana@yahoo.com
National School of Political Studies and Public Administration, Bucharest

Abstract. *The construction initiated by Monnet, Schuman, Adenauer and De Gasperi had a remarkable evolution not only concerning the number of the Member States, but also in terms of institutional and functional development, the European Union being one of the most important changing factor concerning the governance and the policy-making process at European level and not only.*

The number of researches studying the European Union from the perspective of its role or its impact in the development and implementation of public policies has increased in the last decades, emphasizing the various approaches of this issue.

Using the theoretical, analytical and empirical framework, described by various scholars, the paper aims:

- *to explore the conceptual dimension of Europeanization and European integration, stressing the differences and similarities;*
- *to achieve a progressive analysis of the reforms made by the European Union in the European policy framework, outlining the methods used in elaboration of its policies;*
- *to emphasize the efforts of regulatory and institutional change made by Romania in its policy-making process, as a result of the European integration and Europeanization processes.*

* Beneficiary of the project "Doctoral scholarships supporting research: Competitiveness, quality, and cooperation in the European Higher Education Area", co-funded by the European Union through the European Social Fund, Sectorial Operational Programme Human Resources Development 2007-2013.

For achieving the aims of the actual paper we have used bibliographical research and study of legislation at European and national level, applied to European and domestic public policies as well as the study of procedural documents carried out by Romanian authorities for domestic public policy elaboration.

Keywords: Europeanization; national and European public policies; institutional and procedural changes.

JEL Code: H11.

REL Code: 13C.

Introduction

Six decades ago, six founding countries (France, Germany, Italy, Belgium, Netherlands, Luxembourg) were establishing according to two constituent Treaties (Paris, 1951 and Rome, 1957) what we call today the European Union. The construction initiated by Monnet, Schuman, Adenauer and De Gasperi has now (2010), 27 Member States as it celebrates more than a half of century of existence, being characterized by a remarkable evolution. The amplitude of the phenomenon is not limited to the number of Member States, but it also identifies itself within the functional and institutional assembly of Community building, the study of the European Communities being possible by means of studying the European integration process, triggering the development of many theories which had an influence on the nature of the policy-making of European Union.

From a progressive analysis perspective, we remark that during 1950s to early 1960s functionalists have tried to explain the process of integration as a process which starts from small sectors towards an ambitious and broad process (Wallace, Pollack, Young, 2010, p. 17). Within the next period, the intergovernmentalism occurred, which tries to explain why the process of integration has not taken place as the founders of Communities have expected. Webb (1977) configured a set of implications on the nature of European policy-making by analysing the assumptions of the two most dominant schools and after appreciating European Union as one of the most important factor of change regarding the governance and policy-making in Europe. New theories were developed more recently (neo-institutionalism or the perspective of rational choice and constructivism) and they emphasized other implications of the European Union policy-making.

We have to keep in mind that the enlargement and deepening of the European integration reinforces the importance of the mechanisms and tools used for its foundation, elaboration and implementation of the national public policies as well as the importance of appropriating the European practices and uses, emphasizing at the same time the need to identify particularities of the Community decision-making process. Domestic institutional framework and policy-making process have been subjects of the factor of change under the requirements of the European integration process. Moreover under the impact of the same process, the European policy-making process itself was shaped by rules and procedures that have evolved together with the successive changes and enlargements of the European Union.

Although it is estimated that on European level there is a favourable framework for the public policies unification, these can not be applied in the

same way, their diversity being caused by the different realities, traditions and cultures of the European states and, not at least, by the economic development degree, tools and mechanisms through which are being promoted national public policies (Matei, 2007, p. 4). Nevertheless, national actors can learn from the Europeanization process by trying afterwards to change and adapt their own internal processes to the EU policies.

I. Europeanization – a catalyst for the European policies

I.1. Theoretical aspects of the Europeanization phenomenon

As part of the European construction, the Member States assumed their participation in the development of some common policies by giving to an international organization powers which for centuries belonged to the national state. Under the pressure of Community norms and delegation of authority, these have created a supranational decision-making framework.

According to the objectives of our approach, two major research themes are identified in literature: the European integration and the Europeanization. There is no single definition of the two concepts, scholars being concerned by their improvement. Theoretical approaches of the European Union study generate in the mind of the junior reader a state of confusion regarding the two concepts, because some theorists approach a clear distinction between the conceptual meanings of the two terms, while other authors assimilate one term to the other. For example, we refer, on the one hand, to Schmidt perspective (2001) (in Howell, 2004, p. 8), who opposes Europeanization to European integration, arguing that European integration includes policy development and formulation at the EU level, through the interaction between national actors; and on the other hand, according to Olsen approach (2002), who perceives European integration similar to Europeanization. Olsen (2002) defines Europeanization as: (1) a governance institution developed at a supranational level; (2) influence or imposing supranational at a national and local level; (3) exporting governance procedure and policy specific for EU beyond EU borders.

According to Ladrech (1994, p. 69) (one of the most quoted sources) “Europeanization is a process reorienting the direction and form of the national politic order so that the economic and political dynamics of the Community becomes a component of the organisational logic of the national politics and policy-making”. In another perspective (Börzel, 1999, p. 574), Europeanization is a process by which important areas of national policies become moreover subject of the European decision-making process.

Europeanization is an independent variable with an impact upon domestic processes, institutions and policies (Börzel, Risse, 2000, pp. 4-6), and according to Featherstone's typology (Featherstone, 2003, p. 5) the approaches on Europeanization can be classified into four categories: (1) Europeanization as a historical process; (2) Europeanization as transnational cultural diffusion; (3) Europeanization as a process of institutional adaptation and (4) Europeanization as a change process of developing and implementing domestic policies – involves both policy-making at European Union level and their impact on domestic policy-making process.

Europeanization process was understood as “development and expansion of the skills at European level and the impact of Community actions on Member States” (Kassim, 2002, pp. 139-161). From Buller and Gamble view (2001), European integration is a process of convergence at the European Union level, while Europeanization denotes the consequences of this process, which may have a different impact on the national state level.

Differences between these two concepts are drawn by Andersen and Sitter (2006, p. 315) who argue that “European integration is the whole process of creating institutions and Community policies, and Europeanization defines the variation of national impact of integration.” Also, Europeanization has been interpreted as a globalization process in the European realm, representing a state which is contiguous to the European integration, encompassing, among others, its impact upon the national administrations (Matei, 2004, pp. 29-43). Authors such as Peters (1997) and Page (1998, pp. 803-809) brought to debate, ever since the 1990s, the link between the Europeanization process and the general tendency of the public administration to “abandon” the traditional model of governance for the model of governance, where authority is diffused (shared), and the actors have multiple roles, especially in public policies area.

In the current paper, we refer to Radaelli's definition (2003, p. 30), “Europeanization is a process of (1) construction, (2) diffusion and (3) institutionalisation of formal and informal rules, procedures, public policy paradigms, styles, «ways of doing things», beliefs and common values, which are first defined and consolidated in the European Union policy-making and then incorporated in the logic of domestic discourse, identities, political structures and public policies.” The author materializes the conceptual meaning of European integration into the transfer of sovereignty to the EU.

The definition formulated by Radaelli (2003) for European integration is in contradiction with Lawton's definition, which suggests that Europeanization is *de jure* a transfer of sovereignty towards the European Union level and that it differs from “Europeanification”, translated by power distribution between national governments and the European Union (Matei, 2008, pp. 35-37).

Taking into consideration the diversity of definitions found in the field literature, we notice that most authors understand and use the concept of “Europeanization” in one of the following forms⁽¹⁾:

- Europeanization is an incremental process reorienting the direction and shape of policy to the extent to which Community's political and economic dynamics become part of the organizational logic of national politics and policy making (Ladrech, 1994);
- Europeanization is a process by which important areas of national policies become subjects of the EU decision making process (Börzel, 1999);
- Europeanization is a set of processes through which political, social and economic dynamics becomes part of the logic discourse and national identity, political structure and national public policies (Radaelli, 2000);
- Europeanization is an institutional process whereby institutional actors at national level change the conditions and public policies in order to respond to supranational changes (Olsen, 2002).

Moreover, Olsen (2002) argues that the various definitions of Europeanization are complementary, without being in a relation of exclusion.

Concerned to improve the meaning of Europeanization concept, theorists (Matei, Matei, 2010) have outlined the Europeanization approach in terms of a three dimensional process:

- top - bottom (from top to bottom, from the Union to the Member State) entitled by Dyson and Goetz (2003) (in Bache, 2005, p. 6, Goetz, Hix, 2000, George, 2001) “the first generation” in Europeanization research, trying to explain the internal reactions to the exogenous pressures. This approach has also been called the Heineken metaphor or “downloading”. A summary view of the history analysis of this perspective reminds us that the original approach was used to analyze how policies are implemented by the Member States, and later in 1990 to analyze the impact of the Union on Member and candidate states.
- bottom - up (from bottom to top) represents the second generation of studies, known according to Wallace's assertion as the metaphor of “magnetic fields” (Wallace, 2000, p. 381) or “uploading”. From this perspective, the national and the European levels tolerate and influence each other. Andersen and Sitter (2006, p. 318) have explained that the integration is “European as form, but national as basis”, while authors such as Börzel (2001) and Howell (2004, p. 12) conclude that from this perspective Europeanization is reflected in the transfer of preferences and national abilities for action to EU and the subsequent takeover of

the European product to a national level. In other words, the approach analyses how the domestic actors of the Member States influence the decisional and policy making process at the supranational level. In this context, it is remarkable the cost analysis of adaptation to the European Union policies, emphasizing the idea that adaptation will be “cheap” if institutions and national public policies already have similar characteristics to those imposed by the supranational level.

- horizontal - through which administrations and different ways of governance tend to be convergent as result of a mimetic process. Bomberg and Peterson's studies (2000) are the most quoted sources in the analysis of this Europeanization form, equating Europeanization with a policy transfer.

From a systemic perspective, these three specific dimensions for Europeanization can be integrated within the framework of other approaches, the perspectives that emphasize two complementary aspects of Europeanization, distinguishing between Europeanization by deepening, in other words, the mutual impact between the EU and its Member States, and Europeanization by enlargement, typical for candidate states, which adopt exogenous institutional models (Matei, 2007, pp. 10-12). Irrespective of the identified mechanism's, the content or form of Europeanization, or the action of various factors at the level of any member or candidate state, a certain impact of Europeanization can be observed. In this context, we mention, the assertion of Cowles, Caporaso and Risse (2000) (in Cowles, Caporaso, Risse, 2001, pp. 217-239) according to which “the extent of Europeanization should be the common product of (1) necessary adaptation pressures between EU institutions and national policies and (2) internal variables, including the existing number of domestic institutional restrictions. Falkner (2003, p. 4), according to the Member's status quo and availability to reform, distinguishes between (1) full, (2) partial and (3) correct transposition.

Depending on the intensity of the change determined by the European Union impact on domestic level, Börzel and Risse (2000, pp. 14-15) outline: (1) absorption – when the Member States incorporate European policies and ideas and readjust their institutions without substantially modifying existing processes, policies and institutions (the degree of domestic change is low); (2) accommodation which involves adaptation of existent processes, institutions and public policies by Member States, without major changes (the degree of domestic change is modest) and (3) transformation which consists in replacement of the existent processes, institutions and public policies by new substantially different ones, or in institutions their original features and functions are fundamentally changed (the degree of domestic change is high).

Additionally to these aspects, Radaelli (2003) (in Featherstone, Radaelli, 2003, p. 37) added: (1) inertia or the lack of any change and (2) retrenchment – when national policy becomes “less” European than before EU’s intervention.

Keeping the same interest sphere and the aim to clarify the meanings of those two concepts, the lines below outline the distinction between Europeanization and other concepts, as it is expressed in the field literature on Europeanization (Radaelli, 2003, p. 33).

Therefore, Europeanization should not be confused with concepts such as convergence, harmonization, integration or public policy making. Europeanization can produce convergence or divergence between the processes of some countries; the latter, being consequences of Europeanization. However, specialized studies (Bennett, 1991, pp. 221-227) emphasized the existence of four general mechanisms that may lead to convergence of the national public policies: (1) emulation – “the utilization of national or international programmes and drawing lessons from that experience”; (2) elite networking – “the existence and share of the same ideas by a relatively coherent and enduring network of elites, engaged in regular interactions at the trans-national level” (...) Unlike emulation process, Community is committed to share the experience learned about a particular issue; (3) harmonization – “recognition and resolution of a common problem through pre-existing structures and international processes”; (4) penetration – “states are forced to conform to actions taken by other external actors”.

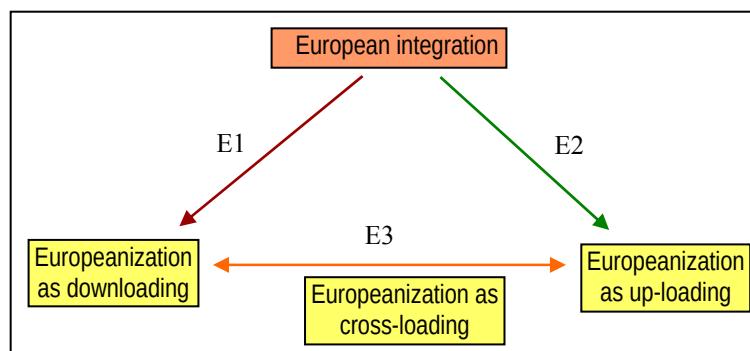
Europeanization should not be confused with harmonization, mechanism through which the regular diversity is reduced, especially by providing a uniform field of action. In a study on French environmental policy, Montpetit concluded that “Europeanization encourages domestic policy change, but not all Member States will opt for the same types of change, so Europeanization does not necessarily implies harmonization” (Montpetit, 2000, p. 590). Europeanization is not synonymous with political integration, the latter providing the framework for the emergence and development of Europeanization.

As a result of the polemics regarding the possible meanings of European integration and Europeanization, it is difficult to make a strict conceptualization of the differences between these two concepts. As above mentioned, according to some definitions, it is difficult to distinguish between European integration and Europeanization, while according to others it is impossible, because the two concepts are identical. However, if we were to detect the essence of both concepts, in a succinct formula we would refer to terms like the ones exposed in the following table (Table 1):

Table 1

European integration and Europeanization, brief issues	
European integration conceptualizes [...]	Europeanization conceptualizes [...]
1. the process by which the Community level, Member States, directly or indirectly express and make known their preferences, comparing them with those of partners, in order to take a decision (Iancu, 2004);	1. the process by which the Member States internally adjust their national preferences as a result of interactions at a Community level (Iancu, 2004);
2. direct, real and regular relationship, in economic and policies framework from the 27 EU states, developed under the pressure of EU rules and which creates by authority delegation a supranational decision making locus (Lindberg, 1963, Haas, Bombard, Peterson 1968, 2000, p. 1, Andersen, Sitter, 2006, pp. 315-318);	2. differential impact of the European integration process on the internal structures of a state and the consequences of Community institutions functioning (Schmidt, 2001, Radaelli, 2003);
European integration is analyzed in terms of the following theories [...]	Europeanization can be understood in terms of a three-dimensional process [...]
1. neofunctionalism;	1. top - bottom (from European to national level);
2. intergovernmentalism;	2. bottom - up (from national to European level);
3. institutionalism;	3. horizontal (from the national level of a Member State; to the national level of another Member State).
4. constructivism.	

With no intention of cutting the Gordian knot regarding the differences between the two concepts, we emphasize from a conceptual point of view that some differences can be identified between Europeanization and European integration, as well as a dialogical and uniform dialectical process. Moreover, the relationship between Europeanization and European integration is an interactive one, inter-networking elements affecting the distinction between the dependent and the independent variable. The graphic representation of this relationship can take the form drawn in Figure 1.



Source: adapted from K. Howell, [*Developing Conceptualisations of Europeanization: Synthesising Methodological Approaches*, 2004].

Figure 1. Relationship between the process of European integration and Europeanization

I.2. Evolution of the European Union construction and its implications on the European Union policies framework

The Member States' willingness to work together in order to achieve common interests represent the basis of the whole European construction. European Union's origins are closely related to the Second World War. Typically, 1950 is considered "the start" of this structure, more precise the moment when the French foreign minister, Robert Schumann, proposed the involvement of several European countries in a profound cooperation project. Negotiations between the six founding states are formalized in the Treaty establishing the European Coal and Steel Community (ECSC Treaty⁽²⁾) signed in Paris in 1951 (entered into force in 1952). The aim of this treaty was the economic growth, increasing employment and living standards through a coal and steel common market.

Taking as example the success of the Treaty establishing the ECSC, the founding states decided to extend cooperation in other economic sectors, so that in 1957, in Rome, the Treaty establishing the European Economic Community (TEEC) and the Treaty establishing the European Community for Atomic Energy (EURATOM) were signed (entered into force in 1958⁽³⁾). The main references on European policies are comprised in the European Economic Community Treaty, which stipulated, among other things, the creation of a common market and the progressive approach of economic policies of Member States.

Creating a common market does not mean only the abolition of the obstacles to the free movement of goods and carrying out the Customs Union, but it also means the liberalization of other sectors and the establishment of common policies in strategic areas such as agriculture, trade, transport, competition (art. 3 TCEE, IER, 2003, p. 4). Few years later (1962), the European Union had defined and introduced a Common Agricultural Policy⁽⁴⁾, which was also the model of the first European policy-making procedure namely, the traditional Community method.

In 1965, the Brussels Treaty was signed (entered into force in 1967) seeking a merger of the three treaties set of rules into one, thus achieving the Treaty establishing a Constitution for Europe) (not ratified yet). Regulations regarding European policies are stipulated also in Schengen Agreement (1985), supported by the adoption and implementation of Convention of the Schengen Agreement (1990) which provides explanations on visa policy (Article 7 of Convention), on Executive Committee and asylum domestic policies (art. 132, of the Convention).

The Single European Act (SEA) signed in 1986 (entered into force in 1987) represents a new stage in the European construction and in European policy framework by default. Article 20 provides the introduction of a new chapter concerning cooperation in the field of economic and monetary policy (Economic and Monetary Union) in EEC Treaty. Another innovation brought by the Single European Act is the introduction of the following policy areas in the EEC Treaty: economic and social cohesion (art. 23, SEA), research and technological development (art. 24, SEA), environment (Article 25, SEA). Title III of the same document defines the goal of European cooperation in the sphere of foreign policy, namely, “the elaboration and implementation of a European foreign policy by the High Contracting Parties, members of the European Communities”.

Continuing the progressive analysis of the European construction, we emphasize that a defining stage in its development is represented by the collapse of communist regimes in Central and Eastern Europe, which led to a rethinking of the European Community structure, thus creating a new political union and an economic and monetary one. The result is exploited by signing the Treaty of Maastricht in 1992 (entered into force in 1993), which amended the Treaty of Rome of EEC and created the European Community (TEC). In the field literature the Treaty is also known as Treaty on European Union (TEU). The constituent Treaties, ECSC and EURATOM have been amended only in view to harmonise their institutional provisions in harmony with the changes made by EC Treaty. Continuing the changing process, the Treaty establishes the European Union, consisting of: (1) European Communities – Pillar I; (2) Common Foreign and Security Policy – Pillar II; (3) Cooperation in Justice and Home Affairs – Pillar III.

In the field of European policies, the art. 3 from TEC shall be replaced by the following⁽⁵⁾: “for the purposes set out in article 2, the activities of the Community shall include: (1) the prohibition, as between Member States, of customs duties and quantitative restrictions on the import and export of goods, and of all other measures having equivalent effect; (2) a common commercial policy; (3) an internal market characterized by the abolition between Member States of obstacles to the free movement of goods, persons, services and capital; (4) measures concerning the entry and movement of persons; (5) a common policy in the sphere of agriculture and fisheries; (6) a common policy in the sphere of transport; (7) a system ensuring that competition in the internal market is not distorted; (8) a policy in the social sphere comprising a European Social Fund; (9) the strengthening of the economic and social cohesion; (10) a policy in the sphere of the environment; (11) the strengthening of the competitiveness of Community industry; (12) the promotion of research and

technological development; (13) encouragement for the establishment and development of trans-European networks; (14) the attainment of a high level of health protection; (15) a contribution to education and training on quality; (16) a policy in the sphere of development cooperation; (17) the association of the overseas countries and territories in order to increase trade and promote jointly economic and social development; (18) increasing consumer protection; (19) measures in the sphere of energy, civil protection and tourism” (Article 3, TEU).

Furthermore, through the process of TEC amending, TEU expressly mentions the concept of Community policies, regulated by Title III. Its analysis emphasizes a number of features of the following policies already outlined in Art. 3, on which other fields are added such as: the consumer protection, capital and payments, etc. Once the second pillar is established, the political cooperation between the Member States is raised at the status of common policy, which means its inclusion in a particular institutional framework. In this way, through Maastricht Treaty, the EU has a common policy extended to all sectors of Common Foreign and Security Policy and a systematic cooperation between Member States is established.

The Treaty set out a systemic cooperation form in the sphere of justice and home affairs, and the issues covered by this policy are as follows: the offer of political asylum, the immigration, the fight against fraud and drug addiction, judicial cooperation in civil and criminal matters, the cooperation between customs and police in order to prevent terrorism and other forms of international crimes.

The next milestone of the reforming process is represented by the signing of Treaty of Amsterdam, in 1997 (entered into force in 1999), through which the versions of TEC and the TEU are being consolidated.

The main innovations introduced by this Treaty are as follows⁽⁶⁾:

Related to pillar I – the Member States will consider promoting employment as a matter of common concern in the elaboration of employment policies process, and will coordinate their actions within the Council. The objectives of employment policy will be established in close connection with the economic policy guidelines, and the Social Charter’s provisions were incorporated in the content of the Treaty. In relation to these policies a new goal is emerging, “achieving a high level of employment”. However, the provisions of the Treaty consolidate the components of environment, health, social and consumer protection policy. Concerning the common commercial policy, the provisions of art. 133 TEC are extended, including international negotiations, services and intellectual property rights, which were not covered by the commercial policy yet.

The innovative elements of the Pillar II are as follows: extending the goal of common commercial policy and introduction of new foreign policy instruments (common strategies that complete the cooperation actions and common positions); introduction of “Petersberg tasks” in the TEU⁽⁷⁾ in order to emphasize the idea that the basis of EU priorities is represented by the common desire of Member States, to protect European security through humanitarian aid operations and peace restoration.

Related to pillar III – communitarization of the component regarding “visas, asylum, immigration and other policies on the free movement of persons”, introduction of the Schengen acquis under the Title IV of TEC. After all these actions have been taken, Pillar III is reduced to judicial and police cooperation in the sphere of criminal matters. The Treaty set out the basis for enhanced cooperation between states that wish to develop faster on the way of integration.

The Treaty of Amsterdam increased European integration process, in particular by the formal establishment of freedom and democracy principles, human rights and creation of a basis for a common policy in the field of freedom, security and justice. The Treaty paved the way for the institutional reform at European level, by also strengthening the role of the European Parliament. The institutional reform initiated by the Treaty of Amsterdam in order to integrate the Eastern Europe countries in the EU was embodied in the Treaty of Nice.

The Treaty of Nice (2001, entered into force in 2003) represents a necessary step in the evolution of the European construction. Its development was imposed by the EU new Member States and strengthening of European structure in order to meet the criterion of efficiency. From the perspective of European policy analysis, the finality of the Treaty was edified in one consolidated version of TEC and TEU and in the cooperation system review. The importance given to cooperation process is also reflected in the provisions concerning the establishment of European Judicial Cooperation Unit (Eurojust) aiming enhanced judicial cooperation on matters of crimes, the growth of economic financial and technical cooperation with third world countries (Article 181a, Nice Treaty). Community support is extended to other sectors namely: the social policy (42 and 137 TEU) - the reform of social protection systems and establishment of the possibility to passing from unanimity procedure to a qualified majority voting system for areas which do not belong to social security; it is intensified the fight against social exclusion.

As a continuation of this reform, the Treaty establishing a Constitution for Europe was developed, signed in 2004 at Rome by 25 Heads of State and

Government. The project aims to replace all the signed treaties except EURATOM Treaty.

Regarding the European policies dimension, Part III is especially dedicated to this subject, as evidenced by its title “the policies and the functioning of Union”. The provisions emphasize the requirements which should be taken into account in defining and implementing the policies, namely: (1) the elimination of inequality and the promotion of equality between men and women; (2) the promotion of high level of employment, the guarantee of social protection; (3) the fight against social exclusion; (4) the promotion of a high level of education, training and human health protection; (5) combating discrimination based on any criterion; (6) promoting sustainable development; (7) the consumer protection (8) promoting agriculture, fisheries, transport, internal market, research and technological development (Articles 116-121, the Treaty establishing a Constitution for Europe). Furthermore, Part III is divided into titles comprising provisions that stipulate details on each policy.

As innovative aspects, the Treaty proposed the following: improving the economic coordination among countries that have adopted the euro currency; renouncing to organization of the Union on pillars, the second and the third pillar being shifted to the Community. Common Foreign and Security Policy will be enhanced by creating a Ministry of Foreign Affairs and by promoting a common defense policy⁽⁸⁾.

The most recent reform document is the Treaty of Lisbon (2007, entered into force in 2009). In its draft form, the Treaty was called the Reform Treaty, and its goal was to replace the Treaty establishing a Constitution for Europe, which was abandoned due to the rejection by Netherlands and France. The objectives include: the promotion of the Union as an international actor and realigning the mechanisms of foreign policy available in Union for developing and adopting the new policies. The Treaty of Lisbon amends the Treaty on European Union (TEU, 1992) and renames the Treaty establishing the European Community (TEC, initially TCEE), Treaty on the functioning of European Union (TFEU). The latter details Union’s policies, except the Common Foreign and Security Policy.

The most important change brought by this Treaty consists in attaining the legal personality of Union and incorporating the EU Charter of Fundamental Rights.

The Treaty is not bringing any substantial changes on the European policies above mentioned, but it only states the role of the European Parliament as co-legislator next to the Council, on the Commission’s proposal. Other changes introduced by the Treaty in the field of policies refer to clarify some terms and concepts, emphasizing some principles in the sphere of social

protection, as well as the introduction of some particular procedural provisions. This trend also includes the enshrining of “territorial cohesion” concept within the meaning of balanced and harmonious development of the territory. To the above elements, the Treaty added⁽⁹⁾ citizens’ initiative, synthesized as the citizens’ right of the Member States to require the European Commission to submit new policies; the reformulation of economic policy objectives (achieving economic and monetary union with the EU currency, euro); the reshaping of Common Foreign and Security Policy (Title V of the TEU) and setting-up the High Representative of the Union for Foreign Affairs and Security Policy; reconstruction of the Union without pillars, the third pillar is completely communitarised “The area of freedom, security and justice” (Article 67, TEU).

As a consequence of this pillar communitarisation, it occurs a more clear definition of the EU role in the sphere of Common Foreign and Security Policy – including the disarmament operations, the military advice and assistance, and helping to restore post-conflict stability and development of common policies in the field of asylum, illegal immigration, drugs, human trafficking and the control of external borders (new policy areas).

The pioneering aspects of the Lisbon Treaty include: the recognition of the neighbourhood at the Treaty level and the promotion of a high level of employment and jobs in all European policies and actions. The Treaty introduces the legal basis for development and promotion of new European policies, namely: sports, tourism, civil protection or space policy in order to respond to new global challenges, emphasizing the EU’s commitments to an environment and sustainable energy policy.

The evolutionary perspective of the European construction has highlighted the major importance of the European policies. The European policy areas have been strengthened and completed from one stage to another and the implementation of the belief that some areas may be improved better by an approach at European level in the Member States has led to the existence of common policies, developed and adopted at Community level and applied across the whole Union.

Transformations occurred in the area of European policy as consequences of European development are gathered in the two Treaties amended by the Treaty of Lisbon. Nowadays, the European Union together with the Member States designs policies in over 24 fields, their situation being presented in the table below (Table 2).

Table 2

The policies of the European Union and their legal basis

In the following policy areas [...]	the European Union has the following competence [...]	and the legal basis ⁽¹⁰⁾ is in the Treaty [...]
Agriculture, fisheries = a common agricultural policy= =a common policy in the sphere of fisheries =	shared competence with the Member States. shared competence with the Member States excluding the conservation of marine biological resources, where the EU has exclusive competence.	art. 33, TFEU. art. 32-38 TFEU.
Economic and monetary affairs = an economic policy = = a monetary policy =	actions to support, coordinate or supplement the actions of the Member States. exclusive EU competence (for Member States whose currency is the euro).	art. 120-121 TFEU. art. 127 TFEU.
Institutional Affairs = administrative cooperation policy =	actions to support, coordinate or supplement the actions of the Member States.	art. 197, TFEU.
Foreign trade = a common commercial policy =	exclusive competence.	art. 133, TFEU.
International Relations and Foreign Affairs = a common foreign and security policy =	particular EU competence, others than those covered by art. 2 TFEU.	art. 24, TEU.
Civil protection = a civil cooperation policy =	actions to support, coordinate or supplement the actions of the Member States.	art. 196, TFEU.
Economic, social and territorial cohesion = a regional development policy =	shared competence with the Member States.	Title XVIII, TFEU.
Education, vocational training, youth and sport = an educational policy =	actions to support, coordinate or supplement the actions of the Member States.	art. 165 - 166, TFEU.
Employment and social affairs = a social policy = = an employment policy =	shared competence with the Member States. shared competence with the Member States.	Title X, TFEU. art. 145-149, TFEU.
Energy = an integrated policy in the sphere of energy and environment=	shared competence with the Member States.	art. 194, TFEU.
Industry = an industry policy=	shared competence with the Member States.	art. 173, TFEU.
Environment = an environment policy =	shared competence with the Member States.	art. 191, TFEU.

Research and technological development and space = an environment policy =	actions to support, coordinate or supplement the actions of the Member States.	art. 179-182, TFEU.
Justice, freedom and security = policies on border checks =	shared competence with the Member States.	art. 77, TFEU.
= a common policy on asylum =	shared competence with the Member States.	art. 78, TFEU.
= a common immigration policy =	shared competence with the Member States.	art. 79, TFEU.
Common rules on competition and taxation = a common competition policy = = a fiscal policy =	exclusive competence the governments of the Member States are the ones that decide on the taxes paid by the citizens.	art. 101-109, TFEU. art. 110-113, TFEU.
Culture = audio-visual and media policy =	actions to support, coordinate or supplement the actions of the Member States.	art. 167, TFEU.
Public health = health policy =	shared competence for the common security objectives, and for the remaining objective, each country is free to decide its health policy.	art. 168, TFEU.
Consumer protection = consumer protection policy =	shared competence with the Member States.	art. 12, art. 169, TFEU.
Trans-European networks = a policy regarding the creation of an efficient infrastructure between European regions and national networks =	shared competence with the Member States.	art. 170-172, TFEU.
Internal market = Customs Union = = the free movement of persons, services, capitals and payments =	exclusive competence exclusive competence.	art. 28-37, TFEU. art. 45, art. 56, art. 63, TFEU.
Transport = a common transport policy =	shared competence with the Member States.	art. 90, TFEU.
Tourism = a policy in the field of tourism =	actions to support, coordinate or supplement the actions of the Member States.	art. 195, TFEU.

Sources: (a) http://europa.eu/legislation_summaries/glossary/index_en.htm;

(b) http://europa.eu/pol/index_ro.htm;

(c) enhanced version of the TEU and TEC following the adoption of the Lisbon Treaty.

II. Methods used in European Union policy-making

Before going further with the analysis, it is necessary to clarify that “EU policies” mean the common policies which reflect the preferences of the national governments, the sub-national actors and the supranational organizations; they are also encountered in literature as “Community policies”. It is worth to mention Richardson’s assertion: “it might be a mistake to look for the existence of one European Union policy-making model” (Richardson, 2006, pp. 211-220), even if the data indicate the prevalence of the features of a model in Western Europe.

European policy-making is a very complex process due to the diversity of actors involved and the nature of their competences (exclusive, shared, support, coordination and supplement). In order to understand and to study these policies, researchers have appealed to the theoretical tools of comparative policies, formal and informal models taken from rational choice theory (for example, the model of the principal-agent, or the mandatory-agent).

The most EU policies are found in the form of directives, allowing in this way to different domestic systems to find their own methods of implementation in order to achieve their goals.

The practice allowed the identification of some ways for the EU policy-making, because Europeanization does not unify – the features of national process are spreading in the EU, and the differences between the Member States are reflected in EU policies and their implementation.

The specialised studies (Wallace, Wallace, Pollack, 2005, p. 47) systematize these practices in five methods: (1) the classical Community method; (2) the EU regulatory method; (3) the EU distributional method; (4) the policy coordination method; (5) the intensive transgovernmentalism method (see Tabel 3).

Table 3

The main methods of EU policy making

Method name	Particular features	Comments
classical Community method	1. a strong role of the Commission in the design, negotiation and implementation of the policies;	1. the method was defined in the 1960s having the common agricultural policy as a model.
	2. the strong support of the interested parties, by introducing them in a European process that offers better rewards than the domestic policy;	
	3. the strong role of the Council of Ministers – decisional actor through the method of majority qualified by the votes (QMV);	2. the model is structured in a functionalist logic, including the actors interested in a particular sector. The structure was

	<p>4. the engagement of the national agencies as executive bodies subordinated to a mutual agreement;</p> <p>5. the weak involvement of the European Parliament - Advisory;</p> <p>6. the occasional but significant interference of the European Court of Justice;</p> <p>7. the collective EU policy-making process;</p> <p>8 a strong level of centralization;</p>	<p>mediated by a form of politics in which the political and economic elites were co-operating to promote their various interests.</p> <p>3. the model is a form of "supranational" policy-making with a hierarchical, centralized and institutional process, with a clear delegation of the powers and seeking a positive integration.</p>
EU regulatory method	<p>1. Commission meets the quality of an architect and guardian of the regulatory standards;</p> <p>2. The Council is the forum of agreement for the minimum standards and of guidance for the harmonization - co-legislator (QMV);</p> <p>3. The European Parliament emphasizes the role of the non-economic factors within the co-legislator process;</p> <p>4. European Court of Justice and the Court of First Instance are the means of ensuring the uniform application of the rules;</p> <p>5. stakeholders have the opportunity to be consulted and to influence the form and the content of the rules;</p> <p>6. a varied level of centralization;</p>	<p>1. it is a successor of the traditional Community method, its roots being found in the Treaty of Rome's vision of eliminating barriers between national economies of the Member States.</p> <p>2. the method has been applied mainly in the EU policy in the field of competition and for the achievement of a single market without internal barriers.</p> <p>3. the negotiation process within and through the European Commission and the Council of Ministers have helped the decisional domestic factors to overcome some political constraints that had created some difficulties in the domestic policy making.</p>
EU distributional method	<p>1. Commission has the role of an editor of the programs in partnership with the local, regional and other stakeholders;</p> <p>2. MEPs are an additional source of politically regional pressure – limited impact;</p> <p>3. Member States of the Council agree on a budget with some distributive elements – decisional actor by the use of unanimity;</p> <p>4. The European Court of Justice has a marginal role;</p> <p>5. enhancement of the powers for the local and regional authorities;</p>	<p>1. the method is also known by the term "multilayered governance" helping to enhance direct contacts between European and sub-national levels.</p> <p>2. the domestic political regimes of the Member States have been partly redesign after the European policy-making through which the financial incentives could have influenced the new relationships.</p>

	6. actions to attract some other stakeholders in the EU policy-making;	
	7. the reorientation of the budget towards actions of increase of the cohesion;	
	8. a strong but limited level of centralization;	
policy coordination	1. Commission is endowed with the quality of creating networks, consisting of experts, interested actors, the civil society;	1. the method is based on the accumulation of experience and technical arguments in favor of developing a common approach.
	2. the involvement of the Council with a structure for the development of the activities of brainstorming or deliberation;	2. the creation of a single monetary policy, the adoption of the Lisbon Strategy, which strengthens the role of the "open cooperation method" and the recognition of the discrepancies between countries in terms of policy and economical performances determined the enhancement of the coordination policy technique.
	3. the involvement of some independent experts to promote the ideas and techniques;	
	4. the involvement of some specialized committees of the EP in the depth analysis of the policy issues;	3. one of the adverse implications of the method is the pronounced dispersion of political responsibilities between the relevant actors so that sometimes it is difficult to establish the responsibility of an actor.
	5. moderate level of centralization;	
intensive transgovernmentalism ⁽¹¹⁾	1. the active involvement of the European Council in the establishment of the overall setting policy;	1. defines the areas of the policies included in the pillars second and third.
	2. the predominance of the Council in strengthening the cooperation;	
	3. Commission shares with the Member States the right of initiative;	
	4. Parliament has a consultative role, sometimes is even absent;	
	5. European Court of Justice plays a minor role;	2. it is a method of policy making in other organisations, such as NATO.
	6. the involvement of a distinct group of decisional domestic factors;	
	7. the lack of transparency process towards the national parliaments and citizens;	
	8. a low level of centralization;	

Sources: (a) Adapted from Wallace, H., et al. "Policy Making in the European Union
(b) http://europa.eu/scadplus/glossary/community_intergovernmental_methods_en.htm.

The presence of various methods of policy making is the result of several factors, including: the progress of the European Union construction, changing of domestic policy making processes, the evolution of the economic and the social behavior. Outlining the main idea of this paragraph, we have to note that any of these methods has a certain impact on the domestic policy making.

Scholars (Börzel, Risse, 2000, pp. 15-19) have developed rational or constructivist mechanisms through which the EU may influence the domestic policy, of which we exemplify: confinement of national alternatives, reshaping the domestic identities and preferences by the introduction of new rules and practices. The rational perspective interprets the EU policy-making as a process of negotiations between the key actors (supranational and/or national), each of them seeking to maximize the expected utility based on fixed preferences and within the content of some formal institutional constraints of the EU (Wallace, Wallace, Pollack, 2005, p. 43). It is important to note that the system of the European policies as a unit might differ over time, especially because of the various transformations of the EU.

III. The changes of the policy-making in Romania

The changes on the Romanian political scene, but also those on the international and European level had an impact on the domestic policy making. As for Romania and the other 26 European nations (Member States) at least two policy systems coexist – the domestic and the European system.

The erosion of the domestic sovereignty also involves the “corrosion” of the exclusive competences of the Member States to decide on the domestic policy. In European policy-making process both the EU institutions and the Member States are important, whose roles and influence are determined by the type of power. For example, in taxation, taxes, the national states have most powers, unlike the field of the competition where the EU has greater powers than the Member States. The European Union has enhanced the skills on the environmental policy, leading to an evolution of the EU powers.

However, one thing is certain, before and after 1990, namely the Government had to choose between taking or not taking an action to solve a domestic issue. The main difference is the different perspective on the decision-making process. In the post-revolutionary period, the policy-making took the form of a unilateral, rigid and hyper-centralized process (top-down). During the transition period, the vertical of the power was separated, and under the pressure of some various interest groups and civil society (Vlăsceanu, 1995, Zamfir, Zamfir, 1998, pp. 67-74), the mechanisms of carrying out public

policies has become more horizontal. The results of the evolution of policies in Romania outline two distinct phases of reform: the 1991-2000 period and the 2000-2010 period.

III.1. The public policies in the 1991-2000 period

Once with the denunciation of the totalitarian system, since 1989, the political system has open towards liberalization and public participation. As a result of the economical liberalization, the political pluralism and the diversification of the public decision methods, the intensification of the demand for public policy occurs. The confirmation of a new beginning takes place in 1991, with the adoption of the Constitution, Romania being governed by “rule of law” (The Constitution of Romania 1991, art. 1, align. 3). In line with the goal of this analysis, we consider that it is important to present a few relevant moments in the history of Romania, confined to this particular period. In this respect, we consider the year 1993, when Romania signed the Association Agreement with the EEC and EAEC, acquiring the status of an associated state. The importance of 1993 moment derives also from the EU assertion about enlargement and access conditions for the membership set-up in Copenhagen⁽¹²⁾. In 1995, Romania was applying for candidacy⁽¹³⁾, so that two years later, in 1997, upon of a favorable opinion of the European Commission, shifted from the associate state status to a candidate state status. As a consequence of the acceptance of application for membership, the European Council announces that since 1998, the Commission will make periodical monitoring reports on Romania's progress according to the criteria set up at Copenhagen.

Returning to the field of public policies, theorists have considered the period from 1990-1995 as a period of “unstructured searching”. In a metaphorical formula we could say that only now the meanings of public policies are “discovered”, offered by the pioneers of the science of policies (Lasswell, 1951) (in Lerner, Lasswell (eds.), 1951, pp. 3-15, Gunn, 1984, translation 2000). During that period, some institutions have been rebuilt, while others were borrowed from the Western democracies and adapted to the domestic and cultural context. We remark the increasing involvement of trade unions and employers in the policy making and public policies communities. Unlike modern societies, the initial communities were closed networks formed mostly by specialists – civil servants specialized in different sectors and cross-cutting areas, representatives of the economic environment – from the state enterprises, as well as private enterprises and, in some cases, representatives of the main trade union groups (Craciun, Collins, 2008, p. 43).

Describing a more general context of public policy, Dye asserted: “the formulation of the public policy takes place within the bureaucratic governments, the offices of the interest groups, the rooms of the legislative committees, within the meetings of the specialized committees” (Dye, 1995, translation 2008, pp. 40-41). According to our approach, we consider that the Dye’s assertion (2008) is an evocative description for the domestic context for the period under review. It results that the formulation of the public policy is represented by the world of the specialists, the “hidden” participants, the technocrats, the elites, as Ficher asserts (2000, pp. 47-48). Particular to the period in question is the distributive nature of the public policies, as well as their more legalistic nature; in other words, other practices and analysis tools are omitted and avoided than those provided by the particular instrument of regulation.

III.2. The public policies in the 2000-2010 period

Officially, the European Council decides to start the accession negotiations with Romania after an analytical examination of the *acquis communautaire* and the preparation of the positions for each chapter in 2000. The negotiations for accession started in 2000 and ended in 2004. The year 2005 situates Romania among the countries that have closed all the negotiation chapters, aspect that facilitates the signing of the accession treaty with the EU. Two years later (2007), the new status of Romania (EU membership) is institutionalized. Particularly in this period, Romania is trying to comply with the practices and the patterns of the EU. The reforming process of the public policies cycle aimed the transition from the normative-legal perspective to the analytical -managerial perspective.

European Commission emphasizes the objective of efficiency in the public administration, referring to the need to streamline the coordination of the public policies in 2000. Under the pressure of the European Commission's assessments and identification of the following deficiencies⁽¹⁴⁾: (1) the predominant legalistic approach of the policy making; (2) the insufficient coordination and correlation of the public policies with the budget, (3) the insufficient coordination of the policy making between the central and the local level; the limited capacity for the policy formulation; (4) the lack of a gradual and staged approach in the policy making; (5) the evaluation of the policies has not yet become a method of learning and adjusting the policies or the programs currently under implementation or those to be pursued; (6) the lack of a correlation in the design of the budget and the planning of the policies; (7) the involvement of the Romanian academia is still limited; in the second stage we

could discuss about the development of a broad process of reforming the methods of the policy making (Grabbe, 2008, p. 73). It is pointed out the orientation towards policy analysis, the discovery and the increase of their attention on particular instruments, the defining element being “the phenomenon” of the transfer of public policies, practices, tools, mechanisms, models and principles. Undoubtedly, the policy of the EU’s enlargement automatically implies the coercive transfer of European policies towards the member or the candidate states (Iancu, 2010, p. 94).

The need of reforming the domestic policy making is completed by the conclusions of the State Reports of the European Union, corresponding to the years 2003-2006, that have reshaped this necessity. The first answer of Romania to the requirements imposed by the European Union’s reports consists in the commitments made in the “Programmatic Adjustment Loan (1) of the World Bank” (World Bank 2004, World Bank, 2008, pp. 12-20) regarding the adoption of the procedures for development, monitoring and evaluation of the public policies as part of the reforming policy-making. PAL 1 was embodied to assist the Government in order to achieve its objectives from the Government Program in 2007. Actors like the World Bank, the International Monetary Fund, the European Commission and other partners have largely contributed to PAL establishment. The component on policy-making takes the shape of a sub-component in the “Public Sector Reform” and it aims the improvement of the predictability and effectiveness of the governmental policies. The activities for achieving this goal have started with PAL 2 (World Bank, 2004 World Bank, 2005) when the General Secretariat of the Government, through the Public Policy Unit, accepted the terms and conditions. Moreover, Romania adopted a new procedure for the policy-making in line with the World Bank. A decisive role in the reconstruction of the domestic policy-making is played by the European Commission which sustains the approach through the instrument Phare Twinning Program RO2003/IB/OT/10, 2003/005-551.03.03 “Strengthening the institutional capacity of the Romanian Government for managing public policies and the Decision-making process”⁽¹⁵⁾.

Romania’s efforts outline two directions of action: (a) the reform and the development of the institutional structures and (2) the enhancement of the legal and procedural framework.

III.2.1. Reform elements regarding the structural dimension

Regarding the structural dimension we note the creation of some new organizational structures, also considered the main active factors from this area. The main authorities involved in the policy-making process are (see Table 4):

- The General Secretariat of Government → The Department of Public Policy;
- The Line Ministries → The Public Policy Units at the level of the Ministries;
- The Inter-Ministerial Permanent Councils;
- Non-governmental organizations, other research institutes and centers.

In November 2003, by the Prime Minister's Decision no. 25, within the General Secretariat of Government, the Directorate of Public Policy was created as a Unit of Public Policy, in order to “enhance the system of development, coordination and planning of public policies at a central level⁽¹⁶⁾”. In order to achieve its goal, the Directorate for Public Policy has outlined the following objectives: (1) the efficiency of the public policies, (2) increasing decisional transparency, (3) the superior foundation of the policies (for example, the assessment of budgetary, economic, social impact etc. (4) the improvement of the consulting system between the institutions of the central government, (5) creating a connection between the planning of public policies and the elaboration of the budget, (6) the development of the methodologies used in the evaluation and monitoring of the public policies.

The Line Ministries have the mission to elaborate the proposals of public policies, to implement the public policies and to monitor their implementation and results. Thus, ministries must make use of the feedback function to achieve a continuous improvement in the implementation and development of new policy proposals. These tasks are performed by the units of the public policy within each ministry. According to the GD no. 775/2005 provisions, the units of the public policy are established within the Ministry by the order of the institution's Head, comprising public managers, advisers on integration, contractual staff and civil servants.

Table 4

The main actors involved in policy-making and their main tasks in the field of public policy

Institution name	Its main tasks in the field of public policy	Information source
The General Secretariat of the Government through Public Policy Department	1. it establishes the methodological and organizational framework for the system of planning, elaboration, implementation of public policies at the level of ministries and other special bodies of central public administration, assuring: (a) elaboration of the system of planning and formulating public policies, of conceptual documents and	<i>The Government Decision no. 405 / 2007 on the functioning of the General Secretariat of the Government, updated form until 28 October 2010, art. 1 and art. 3.</i>

	<p>regulations regarding the elaboration of public policies and their permanent improvement; (b) application of the public policy formulation procedures and the presentation and motivation of the draft legislation; (c) monitoring and assessment, using indicators of performance and other techniques, of efficiency of the process of formulating public policies;</p> <p>2. establishes the general framework for defining the Government's priorities and aims to correlate them with the public policy, ensuring: (a) the Prime Minister regularly informing on the progress and the quality of public policy documents prepared by the ministries;</p> <p>3. assures the methodological support and consultancy to the ministries regarding the public policy formulation. In this sense, it: (a) collaborates with the units of public policies inside the ministries; (b) assists ministries in implementing the procedures for formulating public policies; development, present and motivate the draft legislation; (c) identifies the necessity for professional training of the personnel involved in formulating public policies in regard to instruments, methodologies and skills of planning the public policies;</p> <p>4. assures the technical secretariat of the Superior Council for the Reform of the Public Administration, the coordination of the Public Policy and the Structural Adjustment. In this sense, it: (a) collaborates with the units of public policies inside the ministries; (b) assists ministries in implementing the procedures for formulating public policies; (c) identifies the necessity for professional training of the personnel involved in formulating public policies in regard to instruments, methodologies and skills of planning the public policies;</p>	
--	---	--

The Line Ministries through Public Policy Units	<ol style="list-style-type: none"> 1. ensure the consultancy of the specialized departments within the ministries regarding the development of public policy proposals; 2. monitor the enforcement of the procedures adopted by the current Regulation within the ministry; 3. are responsible for sending the proposal of public policy public to the Unit of public policy within the General Secretariat of Government; 4. develop monitoring and evaluation reports on public policies initiated and implemented at the ministries level, in cooperation with the specialized departments; 	<p><i>Government Decision no. 775/2005, regarding the approval of procedures of elaboration, monitoring and assessment of public policies at central level, amended by the Government. Decision no. 1226/2007, art. 11</i></p>
Inter-Ministerial Permanent Councils	<ol style="list-style-type: none"> 1. find solutions for specific problems; 2. assure the coherence of the implementation of governmental policies from respective areas of interests; 3. assure the inter-ministerial communication inside the respective field as well as the harmonization of opinions; 4. coordinate the monitoring of implementation for promoted policies; 5. elaborate periodical reports; 6. monitor the activity of the inter-ministerial commissions and of subordinated working groups; 	<p><i>GD no. 750/2005 regarding the creation of permanent inter-ministerial commissions amended, by GD no. 98/2010, art. 2</i></p>
Non-governmental organizations through The Institute for Public Policy	<ol style="list-style-type: none"> 1. advocate for the high quality level of the policy-making in Romania; 2. conduct research, advocacy and promotion in areas such as: public administration reform, transparency of institutions. 	<p><i>http://www.ipp.ro/pagini/despre-ipp.php, accessed on 19 November 2010</i></p>

In principle, the new institutional arrangements suggest a more organized public policy making.

However, we must remark that the legislation remains the main instrument for the operation of the public policy making.

III.2.2. Reform elements regarding the procedural dimension

Regarding the procedural-legal component of the policy-making, the increasing number of legislative instruments is specific to the reported period. The debut of the process is marked by the completion in May 2004 of the "Guide for policy-making at the central level", with the support of the Department for International Development of the UK Government.

In the following year (2005) the Decision no. 775/2005 of the Government was adopted, regarding the approval of procedures of elaboration, monitoring and assessment of public policies at central level, aiming an improvement of the following aspects: the coherent and cohesive policy-making framework; the adequate technical substantiation, including compulsory impact studies for each alternative identified for the public policy proposal; the institutionalization of some unique forms for compliance by all the initiators of the public policy. The Decision no. 775/2005 of the Government is a reference document in the field of public policy and it introduces formally the concept of public policy in the Romanian public administration.

Aiming the enhancement of the measures covered by the GD no. 775/2005, the Government Decision no. 1361/2006 was issued in 2006, regarding the content of the instrument for presentation and motivation of the draft legislation submitted for the Government approval, and in 2009 Government Decision no. 561/2009 was issued approving the Regulation of the procedures at governmental level for the development, approval and submission of draft policy papers, draft legislation and other documents, in order to be adopted/approved. In 2009 the legal rule is trying to clarify better the documents of the public policies and the procedures to be followed for their preparation and endorsement. A specificity consists in the fact that the Government has approved both the enactment and the public policy documents. Under the provisions of the old rules, the government only agreed to implement the enactment of the public policy's option.

Moreover, for the deepening of the legislative reform in the field of public policy, the Law no. 24/2000 was amended, regarding the legislative technique for elaborating the legal acts. We recall in this context the development of two other major documents related to the area of public policy: the Law no.

544/2001 regarding the free access to information of public interest, published in Official Journal of Romania no. 663/23, October 2001, and the Law no. 52/2003 regarding the decisional transparency in public administration, published in Official Journal of Romania no. 70 / 3 February 2003. In this institutional and legislative framework, the policy making is characterized by the principles applicable to the European space: (1) the existence of a legislative framework which is general, valid and coherent for the policy making; (2) the autonomy of the ministries in policy making; (3) the inter-ministerial character of the policy-making.

The literature concludes (Matei, 2007, pp. 9-11, Matei, 2008, pp. 45-46) that the principles which form the basis of the public policies system are reflected in the following actions: (1) the principle of participation and transparency – the various actors involved in the domestic policy planning; (2) the principle of continuity and coordination – ensure the updating and the coordination with other initiatives; (3) the principle of responsibility – the actors involved in formulating public policies at various levels must take responsibility for the results; (4) the principle of subsidiarity – involving actors which are being located closest to the level regulated through the public policy; (5) the principle of good governance – the government's ability to respond in a timely manner to situations arising from the need of satisfying certain public needs, ensuring the fulfillment of the three E (effectiveness, efficiency and economy of the resources); (6) the principle of cooperation and coherence – the ability of the actors to achieve relations of co-operation and consultation on public policy issues. The synthesis of institutional and legislative changes can be found explicitly or implicitly in the procedure of policy-making, plotted in the figure below (Figure 2):

The policy-making process in Romania

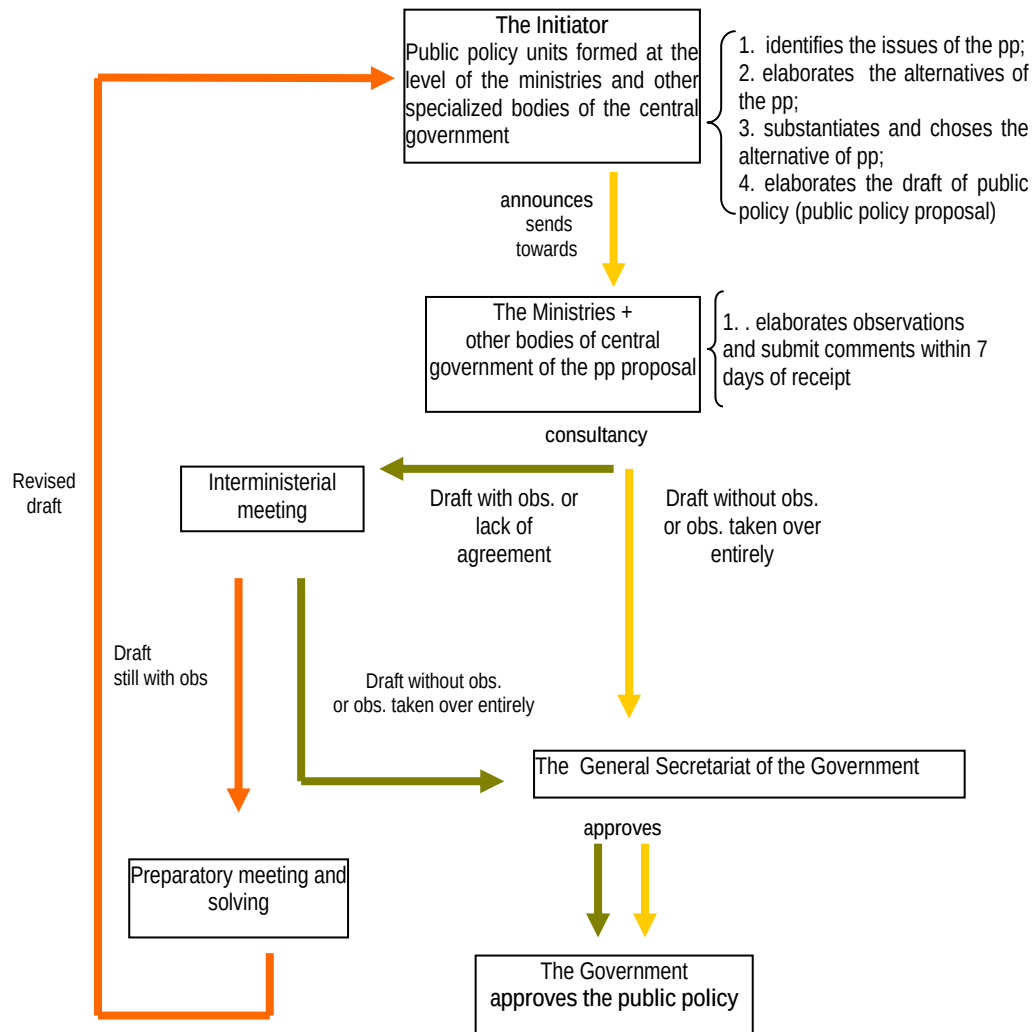


Figure 2. Interpretation based on the GD no. 775/2005 regarding the approval of procedures of elaboration, monitoring and assessment of public policies at central level

Conclusions

The analysis has emphasised that the reforms in the field of public policies have been driven primarily by the aim of EU accession and the requirements of membership. The implications of the European Union in the development of the domestic policy making were not of a "hard" nature, as the EU opted to use the guidance and coordination practices, avoiding the coercive practices (Grabbe, 2008, p. 75). Although it is estimated that in Europe there is a proper space for the unification of the public policies, the models differ from one state to another due to the specific realities of the Member States, culture, traditions, resources, economic development levels, mechanisms and instruments promoted by the domestic public policies.

Knill and Lehmkuhl (1999, p. 1) assert the relevance of the three mechanisms through which the impact of the European Union is being performed on the domestic institutional arrangements and the domestic policy making: (1) a positive integration, (2) a negative integration, (3) the framework-integration. Analysed comparatively, Annette Elisabeth Toller speaks about the existence of other three mechanisms: (1) Europeanization by adaptation, (2) Europeanization by learning and (3) Europeanization by avoidance (Töller, 2004, p. 3).

At present, Romania, on one hand, is widening the process of EU policy-making, as the other Member States, and, on the other hand, is coordinating its domestic policies, in accordance with the Open Method of Coordination. Some of the changes involved in the domestic policy making are due to the transposition into the internal order of the directives, regulations or decisions of the Union, under the sanction of the European Court of Justice.

Page and Wouters (1995, pp. 185-204) conclude in their study that "the power from Brussels" allows the existence of a transfer mechanism of the best practices towards the level of the domestic administrations, influencing the domestic public policies through Europeanization. The Europeanization of public policies can affect all the elements of a policy: the actors, the resources, the policy instruments, even its own style. The impact of the EU policies has been conceptualized in various models, some of them being the input-output model for local development (Matei, 2007, pp. 39-49), the model of administrative cost assessment. The national administrations have been encouraged and supported in developing the mechanisms of participation and coordination of their representatives' actions at the level of the European Union (Matei, 2010, pp. 15-16).

Notes

- (1) To prevent any misinterpretation we mention that the criterion according to which the definitions are exposed takes into account the chronological order of works and not their content importance, all definitions being valuable for the understanding of this complex phenomenon, Europeanization.
- (2) Treaty of establishing the European Community of Coal and Steel available online at: http://europa.eu/legislation_summaries/institutional_affairs/treaties/treaties_ecsc_en.htm, accessed on 9 December 2010. We have to keep in mind that the Treaty left the force in 2002, because it was done only for 50 years.
- (3) The Treaty regarding the establishing of European Economic Community and the Treaty regarding the establishing of European Community for Atomic Energy are available at: <http://eur-lex.europa.eu/en/treaties/index.htm>, accessed on: December 9, 2010.
- (4) The Common Agricultural Policy is a policy that is in continuous evolution, in recent years the legal texts being shortened and adapted for a easier understanding. The most recent measure taken in this sphere took place in 2008, being known in literature and at the institution's level as "monitoring the health of agricultural policy", whose greatest benefit lies in the possibility of CAP's adaptation to new challenges and opportunities.
- (5) The Maastricht Treaty is available online at: <http://eur-lex.europa.eu/en/treaties/dat/11992M/htm/11992M.html#0001000001>, accessed on December 10, 2010.
- (6) Treaty of Amsterdam is available in electronic format at: http://eur-lex.europa.eu/en/treaties/dat/11997D/tif/JOC_1997_340__1_EN_0005.pdf, accessed on December 11, 2010.
- (7) For more details regarding Petersburg tasks see: http://europa.eu/legislation_summaries/institutional_affairs/treaties/amsterdam_treaty/a19000_en.htm, accessed on December 11, 2010.
- (8) Treaty establishing a Constitution for Europe, can be accessed at: http://europa.eu/scadplus/Constitution/introduction_en.htm; <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?&data=OJ&C=2004&L=310&M=0055&P=0185&EN=PDF>, accessed on 12 December 2010.
- (9) The guide on Lisbon Treaty is available at <http://ec.europa.eu/publications/booklets/others/84/ro.pdf>.
- (10) It was considered a consolidated form of each Treaty on 03/30/2010.
- (11) The intensive transgovernmentalism method envisages the intergovernmental cooperation between Member States on delicate issues in which the EU competence is very low or it is even missing. The option for use of the term "transgovernmentalism" is the result of the emphasized idea that the Governments of the Member States were prepared especially for a commitment of cooperation, as it actually explains Wallace, H., in his assertion "The policy making in the European Union", p. 83. Furthermore, we have to keep in mind that this method is used within the content of the second and third pillar, while the other methods are specific to the first pillar.
- (12) European Council from Copenhagen established in the task of the candidate state the following criteria: (1) stable institutions guaranteeing the democracy, the rule of law, the human rights, the respect and the protection of the minorities, (2) an economy of functional market and also the ability to face to the competitive pressure and the forces of the market

within the Union; (3) the ability to assume obligations arising from EU membership, including the adherence to the aims of political, economic and monetary union. They are available online at: http://ec.europa.eu/enlargement/the-policy/conditions-for-enlargement/index_ro.htm, accessed on December 14, 2010.

⁽¹³⁾ Also now there is a new meeting of the European Council in Madrid, adding a fourth criterion, namely, a candidate state should be able to implement the Community rules and procedures of the EU. The adhesion also requires that the candidate state must have the necessary conditions for its integration by adapting its administrative structures; the criterion is known in the doctrine as the “enhanced administrative capacity”.

⁽¹⁴⁾ See http://www.mie.ro/_documents/public_policy/useful_informations/elaboration_pp.pdf accessed on December 14, 2010.

⁽¹⁵⁾ “Strengthening the institutional capacity of the Romanian Government for managing public policies and the decision-making process”.

⁽¹⁶⁾ See http://www.sgg.ro/index.php?public_policy, accessed on December 15/2010.

References

- Andersen, S.S., Sitter, N., „Differentiated Integration: What is it and How Much Can the EU Accommodate?”, *European Integration*, vol. 28, nr. 4, 2006, Routledge
- Bennett, C., „What is Policy Convergence and What Causes It?”, *British Journal of Political Science*, vol. 21, 1991
- Bomberg, E., Peterson, J., „Policy Transfer and Europeanization: Passing the Heineken Test?”, a 50-a Conferință Anuală a Asociației de Studii Politice, 2000, UK
- Börzel, T.A., „Pace-Setting, Foot-Dragging and Fence-Sitting. Member State Responses to Europeanization”, *Queen’s Papers on Europeanization*, nr. 4, 2001
- Börzel, T.A., Risse, T., „When Europe Hits Home: Europeanization and Domestic Change”, *European Integration online Papers* 4, (15), 2000
- Börzel, T.A., „Towards convergence in Europe? Institutional Adaptation to Europeanization in Germany and Spain”, *Journal of Common Market Studies*, 39 (4), 1999
- Buller, J., Gamble, A., „Conceptualising Europeanization”, 2001, <http://aei.pitt.edu/1724/01/bullerandgamble.pdf>
- Cowles, M.G., Caporaso, J.A., Risse, T. (2000). *Transforming Europe: Conclusions*, Cowles, M.G., Caporaso, J.A., Risse, T. (2001). *Transforming Europe. Europeanization and Domestic Change*, Ed. Cornell University Press, New York
- Crăciun, C. (2008). *Transformarea guvernării în România. Provocări pentru managementul politicilor*, în Crăciun, C., Collins, P.E. (eds.), *Managementul politicilor publice: transformări și perspective*, Editura Polirom, Iași
- Dye, Th. (1995) (translation 2008). *Understanding Public Policy*, Editura Prentice Hall, London
- Dyson, K., Goetz, K., în Bache, I., „Europeanization and Britain: Towards Multi-Level Governance?”, *EUSA 9th Biennial Conference*, 2005, Austin, Texas
- Falkner, G., „Comparing Europeanization Effects: From Metaphor to Operationalisation”, *European Integration online Papers*, 7 (13), 2003

- Featherstone, K., (2003). „Introduction. In the name of Europe”, <http://fds.oup.com/www.oup.co.uk/pdf/0-19-925209-2.pdf>
- Featherstone, K., Radaelli, C.M., (2003). *The Politics of Europeanization*, Oxford University Press
- Ficher, F., (2000). *Reframing Public Policy: Discursive Politics and Deliberative Practices*, Oxford University Press
- George, S., „The Europeanization of UK Politics and Policy-Making: The Effects of European Integration on the UK”, *UACES/ESRC*, Workshop Sheffield University, 2001
- Goetz, K.H., Hix, S., „Europeanised Politics? European Integration and National Political Systems”, *West European Politics*, 23 (4), 2000
- Grabbe, H., (2008). *Puterea de transformare a UE. Europeanizarea prin intermediul condițiilor de aderare în Europa Centrală și de Est*, Editura Epigraf, Chișinău
- Hogwood B.W., Gunn L.A. (1984). *Policy Analysis for the Real World*, Oxford University Press, trad. rom. (2000). *Introducere în politicile publice*, Editura Trei, București
- Howell, K., „Developing Conceptualisations of europeanization: Synthesising Methodological Approaches”, *Queen's Papers on Europeanization*, nr. 3, 2004
- Iancu, D.C. (2010). *Uniunea Europeană și administrația publică*, Ed. Polirom, Iași
- Iancu, D.C. (2008). „Spațiul administrativ european”, suport de curs, SNSPA
- Kassim, H., (2002), „The European Administration: Between Europeanization and Domestications” în Hayward, J., Menon, A., (ed.), (2003). *Governing Europe*, Oxford University Press
- Knill, Ch., Lehmkuhl, D., „How Europe Matters. Different Mechanisms of Europeanization”, *European Integration online papers*, 3 (7), 1999, <http://eiop.or.at/eiop/texte/1999-007a.htm>
- Ladrech, R., „The Europeanization of Domestic Politics and Institutions: The Case of France”, *Journal of Common Market Studies* 32 (1), 1994
- Lasswell, H.D. (1951). *The Policy Orientation*, in Lerner, D., Lasswell, H.D. (eds.) *The Policy Sciences*, Stanford University Press
- Matei, A., „The Development of the European Administration. Fundamental Concepts and Approaches”; 2010, http://ssrn.com/sol3/papers.cfm?abstract_id=1531235
- Matei, A., „Empirical Approaches About the Input-Output Model for the Local Economic Development: Case Study in Braila Municipality”, *International Journal of Public Administration in Central and Eastern Europe*, nr. 1, 2007, <http://ssrn.com/abstract=1317609>
- Matei, A., „Evoluția administrației europene. Concepte și abordări fundamentale”, *Drept comunitar*, nr. 3, 2004
- Matei, L., Matei A., „The Economic and Social Impact of Public Administration Europeanization”, 2010, <http://mpa.ub.uni-muenchen.de/24267/>
- Matei, A., Matei, L., „Globalization and Europeanization. A Projection on an European Model of Public Administration”, *Theoretical and Applied Economics* nr. 4, (521), 2008, <http://ssrn.com/abstract=1310129>
- Matei, L., „Representing the Local Interests in Governmental Policy Making. The Romanian Experiment”, *Theoretical and Applied Economics*, nr. 8 (525), 2008
- Matei, L., „Globalization and Public Policies. Transnational actors' involvement”; 2007, <http://ssrn.com/abstract=1372064>
- Matei, L., „The Romania Public Administration facing the Challenges of Integration into the European Union”, *MPRA*, nr. 20024, 2006

- Montpetit, É., „Against the Odds: Retrenchment in Agriculture in France and the United States”, *Agricultural Policy Volume*, 2000
- Olsen, J.P., „The Many Faces of Europeanization”, *ARENA working paper*, nr. 2, 2002, http://papers.ssrn.com/sol3/papers.cfm?abstract_id=369690
- Page, E.C., „The Impact of the European Legislation on British Public Policy Making: A Research Note”, *Public Administration*, nr. 76, 1998
- Page, E.C., Wouters, L., (1995). *The Europeanization of the national bureaucracies*, J. Pierre (ed.) *Bureaucracy in the Modern State: An Introduction to Comparative Public Administration*, Ed. Edward Elgar, Aldershot
- Peters, B.G. (1997). *The future of governing: four emerging models*, Ed. University Press of Kansas, Kansas
- Radaelli, C.M., (2003). *The Europeanization of Public Policy*, in Featherstone, K., Radaelli, C.M. (2003). *The Politics of Europeanization*, Oxford University Press
- Richardson, J.J. (2006). *European Union: Power and Policy-making*, Ed. Routledge, UK
- Schmidt, V.A., „Europeanization and the Mechanics of Economic Policy Adjustment”, *European Integration online Papers*, 5/6, 2001
- Töller A.E., „The Europeanisation of Public Policies – Understanding Idiosyncratic Mechanisms and Contingent Results”, *European Integration online Papers*, vol. 8, nr. 9, 2004, <http://eiop.or.at/eiop/pdf/2004-009.pdf>
- Vlăsceanu, M. (1995). *Politica socială și sectorul nonprofit*, in Zamfir E., Zamfir C. (coord.), *Politici sociale: România în context european*, Editura Alternative, București
- Wallace, H., Pollack, M.A., Young, A.R. (2010). *Policy-Making in the European Union*, ediția a 6-a, Oxford University Press
- Wallace, H., Wallace, W., Pollack, M.A. (2005). *Elaborarea politicilor în Uniunea Europeană*, ediția a 5-a, Editura Institutului European din România, București
- Wallace, H., „Europeanisation and Globalisation: Complementary or Contradictory Trends?”, *New Political Economy*, vol. 5, nr. 3, 2000, Taylor & Francis Ltd
- Webb, C. (1977). *Introduction: Variations on a Theoretical Theme*, în Wallace, H., Wallace, W., Webb, C., (eds.) *Policy-making in the European communities*, Ed. John Wiley&Sons, London

Legislation and strategic documents

- Treaty establishing the European Coal and Steel Community, 1951 (entered into force in 1952), available on the website: http://europa.eu/legislation_summaries/institutional_affairs/treaties/treaties_ecsc_en.htm;
- Treaty establishing the European Economic Community (TEEC), 1957 (entered into force 1958), available on the website: <http://eur-lex.europa.eu/ro/treaties/dat/11957E/word/11957E.doc>;
- Maastricht Treaty on European Union 1992 ((entered into force 1993), http://eur-lex.europa.eu/en/treaties/dat/11992M/tif/JOC_1992_191__1_EN_0001.pdf;
- The European Single Act, 1986 ((entered into force 1987), available on the website <http://eur-lex.europa.eu/ro/treaties/dat/11986U/word/11986U.doc>;
- Treaty of Amsterdam, 1997, (entered into force 1999), available on the website: <http://eur-lex.europa.eu/ro/treaties/dat/11997D/word/11997D.doc>;
- Treaty of Nice, 2001 (entered into force 2003), available on the website: <http://eur-lex.europa.eu/ro/treaties/dat/12001C/word/12001C.doc>;
- Treaty establishing a Constitution for Europe, 2004, available on the website: http://eur-lex.europa.eu/ro/treaties/dat/12004V/word/12004V_TOC.pdf;

- Lisbon Treaty, 2007 (entered into force), available on the website: <http://eur-lex.europa.eu/JOHtml.do?uri=OJ:C:2010:083:SOM:RO:HTML>;
- Law no. 24/2000, regarding the legislative technique for elaborating the legal acts, republished in O.J. of Romania no. 390/9. 06. 2009;
- GD no. 775/2005, regarding the approval of procedures of elaboration, monitoring and assessment of public policies at central level published in O.J. of Romania no. 685/29.07. 2005;
- Government Decision no. 1361/2006, regarding the content of the instrument of presentation and motivation of the draft legislation submitted for the Government approval, published in O.J. of Romania no. 843/12.10.2006;
- Government Decision no. 405 / 2007 on the functioning of the General Secretariat of the Government, published in O.J. of Romania no. 302/7.05.2007;
- GD.no.750/2005 regarding the creation of permanent inter-ministerial commissions, published in O.J. of Romania no. 676/28.07.2005;
- World Bank (2008) „Report no. ICR0000620, Implementation Completion and results report on a first Programmatic Adjustment Loan to Romania”;
- World Bank (2004) „Loan Agreement L4752-RO-Conformed”, available on the website: www.wds.worldbank.org/external/default/WDSP/ECA/2010/03/18/DEF85D1BA9AF6FAE85256F39006B0A74/3_0/Rendered/PDF/L47521PAL0I1conformed.pdf;
- World Bank, (2004) „Second Programmatic Adjustment Loan Project”, available on the website: www.wds.worldbank.org/external/default/WDSP/IB/2004/10/14/000104615_20041014160415/Rendered/PDF/PID010Concept0Stage.pdf;

Websites

- http://www.sgg.ro/index.php?politici_publice;
- http://www.mie.ro/_documente/politici_publice/informatii_utile/elaborare_pp.pdf;
- <http://www.ipp.ro/pagini/despre-ipp.php>.

Re-modeling the Romanian Fiscal Policy under the Terms of the Economic Crisis*

Aura Gabriela SOCOL

Bucharest Academy of Economic Studies
auragabriela.socol@gmail.com

Dorin MĂNTESCU

Bucharest Academy of Economic Studies
dorin.mantescu@finante.ro

Abstract. *This paper brings arguments for the necessity to re-think the modality to analyze and interpret the Romanian fiscal policy, under the terms of the future adherence to the Euro Zone. Under these terms, this study estimates the structural budget deficit, considering this indicator as one of the most relevant for assessing the performance of the fiscal management, and also the extent to which the Romanian fiscal policy is prepared to act as a sole instrument which can stabilize the national economy after entering the Euro Zone. The work is structured as it follows: (i) estimate for the potential GDP and for the output gap by means of the production function method and by the use of the Hodrick-Prescott filter; (ii) estimate for the cyclic budget component, based on the deficit sensitivity (using the elasticities of the government revenues and purchases related to the GDP) and on the value of the output gap and, subsequently, of the structural budget component. Finally, the work mentions a series of conclusions and recommendations regarding the methodological re-construction of the assessment for the fiscal policy's efficiency.*

Keywords: structural budget balance; output gap; fiscal policy.

JEL Codes: E62, E65.

REL Codes: 8K, 8M.

* Ideas in this article were presented at the Symposium „The global crisis and reconstruction of economics?”, 5-6 November 2010, Faculty of Economics, Bucharest Academy of Economic Studies.

Introduction

The current economic crisis brings up again the necessity to use the fiscal policy in order to adjust the macroeconomic unbalances. If, subsequent to the Great Depression, the Keynesian policies focused on using the fiscal policy as the main instrument for macroeconomic stabilization, a balance between the importance given to the fiscal and the monetary instruments was settled during the '70-'80's. During the last decades, the monetary policy has been preferred by the macroeconomic policies' decision makers within the shock absorption process.

During the period of the current crisis, the fiscal policy should have been the most important instrument used by the authorities in order to stabilize the economy. However, in Romania, the margin of maneuver has been severely limited due to the perpetuation of the past deficits. Under the terms in which, during the economic expansion period, Romania accumulated huge budget deficits, the result has been that we are the only ones who are permanently "pro-cyclic". Also, during the expansion periods, when we should have accumulated, we did not do it, and during the recession periods, when we should have increased the expenses, we have cut them. While other countries afforded to grant fiscal stimuli because they were starting from previous low deficits, we were forced to make a large fiscal adjustment.

The inefficiency of the fiscal policy from the past may currently affect us to a huge extent. However, in order to understand this thing, we should re-think the modality in which we assess the fiscal policy's efficiency. If the central banks have learnt their lesson and if they are making the transition from the price stability as a sole objective (which, by the way, reached its limits, a great financial crisis arising in an oasis of price stability) towards a mix between price stability and financial stability in a slow but certain manner, we think that it is the time for the analysis made to the fiscal policy to be re-assessed.

We should pass from the exclusive analysis of the current budget balance to the structural budget balance. We all have been spectators for Greece (and also for Romania), when it was obvious that, in the process of assessing the fiscal policy, the current budget deficit indicator has had an extremely limited usefulness (it is very easy to fulfill the budget deficit target on paper, thus delaying the making of some consistent payments for a subsequent period, increasing the half-wits, etc.).

The first stage of this research supposes the estimation for the potential GDP and for the output gap. The potential GDP does not represent a noticeable variable. In order to be made operational, the concept of potential GDP has been rich and differently defined in the economic literature. Thus, we may

define the potential GDP as the level of the real GDP which can be performed by the economy without generating inflationary pressures. On a medium term, the GDP level can be temporarily deviated from its long-term balance value, i.e. the potential GDP. On a long term, the potential level of the gross domestic product depends on the output capacity of the Romanian economy. The output capacity depends on the production total factor⁽¹⁾, on the rate of capital increase and on the rate of labour increase. Thus, the potential GDP offers information about the output capacity of the Romanian economy, under the terms of non-inflationary growth. The GDP output gap (the GDP deviation or the output gap) represents the difference in percentage between the actual real GDP and the potential one, this being a synthetic aggregate indicator of the inflationary pressures existing in economy.

Thus, the potential GDP represents a measure of an economy's output capacity, that level of the GDP which can be obtained in case the economy functions under terms of "full employment" of labour. Moreover, the potential GDP reflects the level of the national output which corresponds to an economic situation which is characterized by a stable inflation. Through the time, the potential GDP and the output-gap have been of great interest for the researchers. At present, the potential GDP is largely used in the macroeconomic modeling, in the analysis of the economic policies, in the assessments made for the sustainability of the public finances, in quantifying the size of the structural budget balance, and so on.

The "gap" of the output is a measure of a country's cyclic position, i.e. the difference in percents between the actual GDP and the potential GDP: a negative "gap" outlines a sub-efficient economy, as it operates under its potential. A positive output-gap is the result of an excessive aggregate demand, which can induce inflationary pressures. Its correct estimate is extremely important, an output-gap level which is much more negative than its real level possibly resulting in implementing improper economic policies.

In this research, the potential GDP is estimated by means of the production function method – a method which has been recommended by the European Commission and which has been considered as the best measure of the potential GDP and, inherently, of the output-gap. It is based on the methodology described by Denis et al., (2006). Moreover, another method which has been seldom used to estimate the potential GDP is based on the use of the Hodrick- Prescott (HP) filter. However, this methodology has been often criticized in the economic literature, especially because it offers an oversimplified method of measuring – by means of identifying the trend component within the macroeconomic time series (see Box 1).

Box 1. Hodrick-Prescott filter

In 1980 Hodrick and Prescott proposed a procedure which had as objective to determine the trend of a time series (the potential level of the real GDP), so that it could diminish the square of the series' deviation from the trend (the gap volatility) by taking into account the increasing rhythm of the trend. The trade-off between the two objectives is adjusted by means of a multiplier, λ , which sets their relative shares. The Hodrick Prescott filter calculates the trend as a minimum solution of the following equation:

$$\text{Min}_{y_t^p} \sum \left[(y_t - y_t^p)^2 + \lambda \left[(y_{t+1}^p - y_t^p) - (y_t^p - y_{t-1}^p) \right]^2 \right], \text{ where,}$$

y_t and y_t^p are log real GDP and log potential GDP,

$(y_t - y_t^p)^2$ represents the sum of the square deviations of the real GDP compared to its trend,

$\lambda \left[(y_{t+1}^p - y_t^p) - (y_t^p - y_{t-1}^p) \right]^2$ represents a function which penalizes the square deviations in the increase rate of the trend component.

For the purpose of estimating the potential GDP, we have used the quarter values related to the period 1998- 2010. Unlike other methods used to estimate the potential GDP and the outputgap, the main advantage of this estimating method is to also reflect the side of the national economy's aggregate offer.

As for the real GDP, we have used SDDS format quarter values (Special Data Dissemination Standard), which are expressed in millions of RON, i.e. the average prices for 2000 published by the National Institute of Statistics (NIS). The seasonal adjustment of the data has been performed by means of the DEMETRA program.

Determining the potential GDP by means of the production function method supposes the passing through the following stages (Denis et al., 2006):

- (i) determining the form of the production function;
- (ii) estimating the parameters of the production function;
- (iii) determining the entries of the production factors;
- (iv) estimating the production total factor (PTF);
- (v) determining the potential GDP.

Taking into consideration the absence of the data for the Romanian economy, and also the use of a Cobb- Douglas type production function to a large extent in the economic literature, we have chosen to use such a production function, with constant scale efficiency and with decreasing factorial efficiency, supposing a capital share of 0.35, respectively a labour share of 0.65⁽²⁾.

According to the methodology described by Denis et al (2006), the Cobb-Douglas production function represents the gross domestic product as a mix of labour (L) and capital (K), corrected for the excessive capacity degree (U_L , U_K), and adjusted for the efficiency level (E_L , E_K). The potential GDP is given by the following relation:

$$Y = (U_L L E_L)^\alpha (U_K K E_K)^{1-\alpha} = \text{PTF} \times L^\alpha \times K^{1-\alpha} \quad (1)$$

where PTF includes both the excessive capacity degree and also the adjustment for the efficiency level.

Therefore, the Cobb Douglas production function for the Romanian economy has the following form:

$$Y = \text{PTF} \times L^{0,65} \times K^{0,35} \quad (2)$$

As for the labour (L) entries, in Romania, the series of the data related to the employed population records important changes – structural breaks – the 4th quarter of 2001 – the 1st quarter of 2002, as a result of the changes made in the methodology used by NIS. That is the reason why we have used the number of employees as a potential labour entry. Figure 1 represents the structural break recorded within the series of the data related to labour.

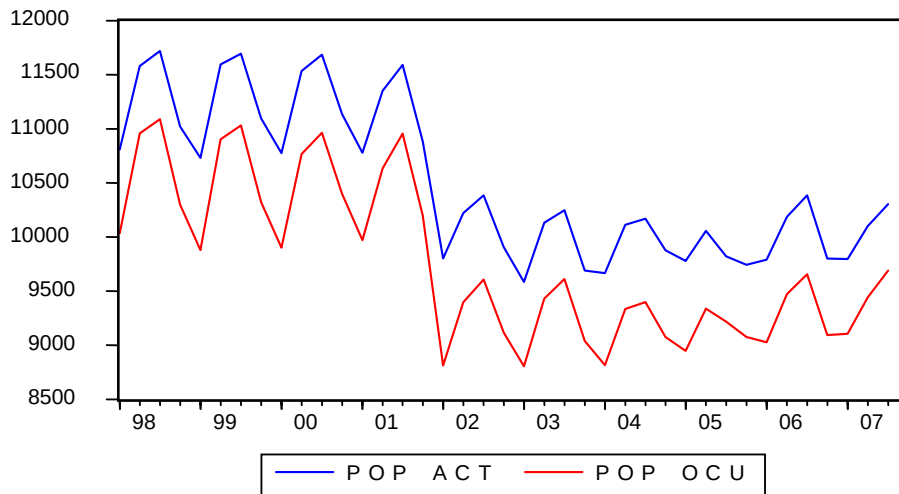


Figure 1. Active population and employed population

The productivity total factor (PTF) has been determined by taking into account the following relation:

$\ln \text{PTF} = \ln Y - (\alpha \times \ln(L) + (1-\alpha)\ln(K))$
the relation used to determine the potential GDP is as it follows:

$$Y = \text{PTF}^{\text{pot}} \times L^{\text{pot } \alpha} \times K^{\text{pot } (1-\alpha)}$$

The potential values of the factors which determine the potential GDP represent the trend components of these Hodrick-Prescott filtered factors. As a consequence, the output gap has been calculated according to the following formula: (real GDP – potential GDP)/potential GDP.

The results are presented in the table below:

Table 1

The values of the output gap in Romania

Year	Outputgap
1998	4.60
1999	2.00
2000	-2.22
2001	-0.60
2002	-0.48
2003	-0.97
2004	1.04
2005	-1.09
2006	0.81
2007	2.17
2008	6.20
2009	-2.95
2010	-3.46

Source: our own calculations.

The second research stage has consisted in estimating the structural budget balance. One of the most used indicators in the analysis made for the efficiency of the fiscal and budgetary policy measures adopted on short and medium terms – especially in the EUMM member countries, which must meet the conditions provided in the Stability and Growth Pact (SGP), and also in the countries which prepare for entering the Euro Zone, is the indicator named *structural budget deficit* (the budget deficit recorded for the potential GDP).

SGP considers that the current budget deficits are excessive when exceeding 3% of the gross domestic product. For the purpose of allowing a margin of maneuver so that the automatic stabilizers could play their role, SGP

also stipulates that the participants to the monetary union should act so as to obtain a “balance or excessive” medium-term position. “Medium term” means a period of approximately three years. By means of the reform implemented in 2005, besides a corrective component – decreasing the current budget deficit under the level of 3% of the GDP –, the reviewed Stability and Growth Pact has also a preventive component, which aims to the member states assuming of a medium-term objective related to the stability of the public finances. Under these terms, on a medium term, each member state undertakes to keep a budget position as close to *balance* as possible, or even *excessive budget*. As the Stability and Growth Pact does not mention the exact meaning of “as close to balance as possible”, we may consider that, inherently, it is necessary to decompose the current budget component in two parts: the *structural* one – due to the implemented fiscal measures – respectively the *cyclic* one – due to the economic fluctuations (Hagemann, 1999).

In the case of the countries which have not sufficiently consolidated their public finances, the reviewed Stability and Growth Pact has settled a target of annually increasing the structural budget balance by 0.5% of the GDP.

Within the process of assessment for the fiscal and budgetary policies, the current budget deficit is an indicator which has a very limited usefulness. For this purpose, we should take into consideration the fact that these policies cannot be analyzed based on short-term indicators (one year, on the one hand, and the fact that an indicator such as the current budget deficit cannot catch the fiscal “burden” of the future generations, for example, on the other hand).

The quantification of the structural budget balance is necessary if we take into consideration the fact that it provides a clear vision of the economic fiscal situation, which cannot be disturbed by the influence of the economic cycle, thus being able to guide the fiscal policy decision makers. The structural balance is the instruments by means of which the discretionary components of the fiscal policies can be monitored and measured. Moreover, it is an efficient modality for assessing the real sustainability of the public finances.

The estimation made for the dimension of the structural deficit has been made in three stages, as it follows: (1) estimating the gap between the actually achieved gross domestic product and the potential gross domestic product (potential GDP) (output-gap); (2) estimating the cyclic component based on the output gap and on the elasticity of the budget revenues, respectively of the purchases depending on the GDP; (3) estimating the structural component by eliminating the cyclic component out of the current budget component (Hagemann, 1999).

Tabel 2

**The values of the output-gap and of the structural balance
in Romania**

– % of the GDP –

Year	Output-gap	Structural budget balance
2000	-3.22	-3.64
2001	-0.60	-3.55
2002	-0.48	-2.76
2003	-0.97	-1.15
2004	1.34	-0.93
2005	-1.09	0.62
2006	0.81	-2.11
2007	2.17	-3.73
2008	6.20	-7.71
2009	-2.95	-6.84
2010	-3.46	-4.40

Source: author's calculations.

The obtained results show some interesting facts. The first one is that the analysis made for the current budget deficit is misleading, especially during the expansion period. In 2007, the current deficit was 2.5% of the GDP and in 2008 it was 5.4% of the GDP. However, if we eliminate the influence of the economic cycle – expansion during the related period, we can notice that the real deficit was 3.73% of the GDP in 2007 and 7.71% of the GDP in 2008 (the estimated values of the structural deficit).

Secondly, the analysis made for the structural deficit indicates the fact that we are reversed, if compared to the postulates of the macroeconomic theory. When our output is under our potential we are making a fiscal adjustment, and when the output is over our potential, we are overheating the economy. During the period 2001-2004, when the economy was functioning under its potential (negative output gap, in the table), a fiscal space was created instead of stimulating the economy. However, it ended fast during the period 2006-2008, when the economy was overheated (highly positive output gap, in the table). During this period it would have been necessary to create a fiscal space. On the one hand, the cause was that the expansion allowed it and, on the other hand, the purpose was to provide resources to the fiscal stimuli for the future recession period. When the economy encountered the crisis, we have found ourselves in an inexistent maneuver space if we refer to the fiscal stimuli which could have been granted. There was one step only from here up to the

necessity to make a large fiscal adjustment in a recession period (which is not recommended).

Therefore, it is necessary to make a deep re-assessment of the fiscal policy in Romania, especially subsequently to the adhesion to the Euro Zone – an objective we have assumed - this is the only available macroeconomic instrument for the macroeconomic stabilization.

Aknowledgement

This article represents the result of grant research Building and implementation of an econometric model in order to increase the efficiency of the fiscal policy considering Romania's adhesion to the Euro area, financed by CNCISIS Exploratory research projects, Program Ideas, code 1766.

Notes

- (1) We mark the production total factor with PTF, the capital with K and the labour with L.
- (2) The values represent an average of the values used in other researches in which the potential GDP is estimated for the Romanian economy: the values used in Dobrescu (2006): 0.65 and 0.35, NBR Working papers No. 20: 0.67 and 0.33; Denis et al.: 0.63 and 0.37. However, the obtained results are approximately the same for low variations of these values.

References

- Barro, R.J., „On the Determination of the Public Debt”, *Journal of Political Economy*, 87, 1979
- Begg, I., Hodson, D., Maher, I., „Economic policy coordination in the European Union”, *National Institute Economic Review*, nr. 183, 2003
- Bénassy-Quéré, A., „Pacte de stabilité: deux objectifs, deux règles”, *CEPII*, nr. 224, 2003
- Benassy-Quere, A., Lahreche-Revil, A., „Pegging the CEEC's Currencies to the Euro”, *CEPII*, nr. 1998, 1998
- Bohn, H., „The Behavior of US Public Debt and Deficits”, *The Quarterly Journal of Economics*, 113, 1998
- Bohn, H., „The sustainability of fiscal policy in the United States”, *CESifo Working Paper*, nr. 1446, 2005

- Bouthevillain, C., Courthimann, P., Dool van den, G., Hernández de cos, P., Langenus, G., Mohr, M., Momigliano, Tujula, M., „Cyclically Adjusted Budget Balances: An Alternative Approach”, *European Central Bank, Working Paper*, No. 77, 2001
- Braconier, H. and Holden, S., „Fiscal Indicators and Cyclical Sensitivity in the Nordic Countries”, *NIER*, WP 67, 1999
- Denis, C., Grenouilleau, D., McMorow, K., Roger, V., „Calculating potential growth rates and output gaps - A revised production function approach”, *European Economy, European Commission Economic Papers*, no. 247, 2006
- Dinu, M., Socol, C., Niculescu, Aura (2005). *Fundamentarea și coordonarea politicilor economice în Uniunea Europeană*, Editura Economică, București
- Enders, W. (1995). *Applied Econometric Time Series*, John Wiley & Sons, Inc.
- Giorno, C., Richardson, P., Roseveare D., Noord van den, P., „Potential output, output gaps and structural budget balances”, *OECD Economic Studies* 24, 1995
- Gujarati, D. (2003). *Basic econometrics*, ediția a patra, McGraw Hill, New York
- Hodrick, F., Prescott, E., „Posterior US bussiness cycles. An empirical investigation”, *Discussion Paper*, nr. 45, Carnegie Mellon University, 1980
- Marinaș, M., „Eficiența politicii fiscale în combaterea efectelor crizei economice. O analiză bazată pe literatura economică”, *Economie teoretică și aplicată*, nr. 11/2010 (552), ISSN 1841-8678
- Noord van den, P., „The Size and Role of Automatic Fiscal Stabilizers in the 1990s and Beyond”, *OECD*, WP 230, 2000
- *** *Revista de economie teoretică și aplicată*, www.ectap.ro, 2006-2010

New Hypothesis on Service Management within the Global World*

Ion PLUMB

Bucharest Academy of Economic Studies
ionplumb@yahoo.com

Andreea ZAMFIR

Bucharest Academy of Economic Studies
zamfir_andreea_ileana@yahoo.com

Abstract. *World economies have changed into service economies in the last decade, as services became the main dynamic component of economic competition. Therefore, this study explores how the globalization and, moreover, the knowledge-based economy could influence the conceptualization of service management. The findings of this study reveal that some of the hypothesis on service management are no longer valid, being replaced by new hypothesis more suitable within the global world and the knowledge-based economy. The study was carried out by combining a wide variety of sources, such as research papers, literature reviews, conceptual papers and books. The results reported in this research may be used for designing new methods and models for the management of service organizations so as to consider the changes in conceptualizing service management.*

Keywords: service management; information and communication technology; global world; knowledge-based society.

JEL Codes: L80, M10, M11.

REL Codes: 14K, 18F.

* Ideas in this article were presented at the Symposium „The global crisis and reconstruction of economics?”, 5-6 November 2010, Faculty of Economics, Bucharest Academy of Economic Studies.

1. Introduction

The evolution of society from an industrial society to a global world and to a knowledge-based society determines conceptual transformations of service management. The aim of this study is to investigate how the globalization and the knowledge-based economy could change the conceptions on service management. The manner in which services are managed within the knowledge-based economy is a highly debated topic these days because of its role within the global economy. In the last decade, services became the main dynamic component of economic competition within developed countries. The broaden interpenetration and integration relations between the sector of services and other sectors of the economy and the growth of economic development opportunities through the extension of international transactions with services may be the main causes of the increasing role of services within national economies.

The research was conducted using evidence provided by articles (such as research papers, literature reviews, and conceptual papers) as well as books. In order to answer the research question we have delineated the background of service management from the marketing approach of this issue and further we have identified some new hypothesis of service management from a managerial perspective. The study has illustrated the influence of the knowledge-based economy on the service management area by identifying logical connections between changes in society and changes in service management. The research question was answered by analyzing published sources, and by evaluating and interpreting evidence. Answering the research question was difficult, due to the variety of approaches, concepts, definitions, and classifications found in the literature.

2. Background

The interest in studying the specific issues of services and its management emerged (surprisingly or not) among marketing researchers, who identified managerial implications of the service characteristics and changes. As Grönroos observed in 1994, “researchers interested in services did not predominantly attempt to change old management models and concepts in a marginal fashion in order to fit services. Instead a totally new approach to the problem of how to manage various aspects of service organizations was taken” (Grönroos, 1994, p. 8). This approach that Grönroos refers to is what we may call the marketing approach of managerial aspects of services. Furthermore, we may suggest that this marketing approach could be embraced (considered) when we attempt to manage service organizations, but a rethinking of the managerial concepts and practices in the context of service specificities within the knowledge-based

society is also needed. This is because from a managerial perspective marketing is only a component of the organization's whole activity, in other words management means much more than marketing, and thus a holistic managerial approach of service organizations may be more suitable within the knowledge-based society.

Having said that, let us begin with what has already been done in the management of services area, namely the marketing perspective or approach. First we will emphasize the manner in which the management of services was conceived; secondly, we will underline the service-dominant logic which we believe is the basis for changes in the management of services; and thirdly, we will focus on the changes in management of services from a more comprehensive point of view, and this is our managerial approach.

3. Old and new hypothesis on service management

With respect to the manner in which the management of services was conceived, the essence of the marketing approach of this issue may be illustrated through the definition of "service management" provided by Grönroos in 1990, and refined later in 1994. According to Grönroos (1990, p. 117), service management is:

1. "To understand the utility customers receive by consuming or using the offerings of the organization and how services alone or together with physical goods or other kinds of tangibles contribute to this utility, that is, to understand how total quality is perceived in customer relationships, and how it changes over time";
2. "To understand how the organization (personnel, technology and physical resources, systems and customers) will be able to produce and deliver this utility or quality";
3. "To understand how the organization should be developed and managed so that the intended utility or quality is achieved"; and
4. "To make the organization function so that this utility or quality is achieved and the objectives of the parties involved (the organization, the customers, other parties, the society etc.) are met".

Starting from the meaning defined in 1990, the same author (Grönroos, 1994, p. 7) identifies five key facets of the service management perspective (overall management perspective, customer focus, holistic approach, quality focus, and internal development and reinforcement):

1. "It is an *overall management perspective* which should guide decisions in all areas of management (not only provide management principles for a separate function such as customer service)";

2. “It is *customer driven* or *market driven* (not driven by internal efficiency criteria)”;
3. “It is a *holistic perspective* which emphasises the importance of intra-organizational, cross-functional collaboration (not specialization and the division of labour)”;
4. “Managing *quality* is an *integral part* of service management (not a separate issue)”;
5. “*Internal development* of the personnel and reinforcement of its commitment to company goals and strategies are strategic prerequisites for success (not only administrative tasks)”.

Discussing service management and its five key facets, the author (Grönroos, 1994, p. 14) concluded that “service management is not a well-defined area or a single theory of management. Rather it is a management perspective that fits today’s competitive situation”.

However, we may argue that in the context of knowledge-based society some of these key facets of the service management perspective are no longer valid. Specifically, the facets of the service management we consider being unconvincing within the knowledge-based society are customer focus, a holistic approach emphasising intra-organizational collaboration, and internal development of personnel (development inside the organization) (Figure 1).

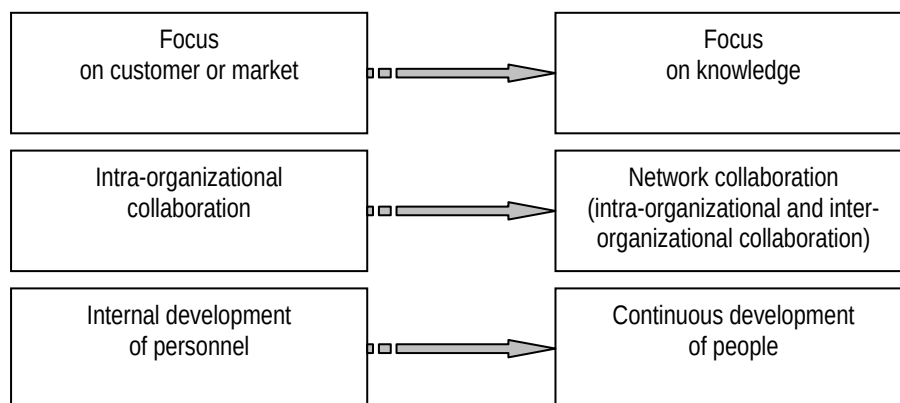


Figure 1. Old and new hypothesis on service management

We have made this statement on the grounds that: (1) *the management of services is knowledge-driven* and not customer driven or market driven because (a) knowledge is the “heart” of society, and implicitly it is the “heart” of all activities, including the management of services, and (b) knowledge includes,

among other things, the criteria for a company's evaluation, which may be internal (such as efficiency or effectiveness) or external (such as environment or health); (2) *the management of services is a holistic perspective which emphasises network collaboration*, both intra-organizational and inter-organizational, since knowledge is created and transferred both within and outside the organization through various networks; and (3) *the management of services relies on people's continuous development as indispensable for success*. This is because (a) besides knowledge, people are the next most important core resource of the management of services which has to evolve on the knowledge spiral, (b) people learn throughout their life (lifelong learning), (c) learning may occur inside and/or outside the organization, and (d) people could learn traditionally – devoid of electronic devices, as well as through electronic learning (e-learning) or mobile learning (m-learning) – using information and communication technology.

As regards the fourth facet of Grönroos' framework, we may say that service quality management as an integral part of the management of services became more important within the knowledge-based economy. Providing quality services has been identified as one of the most difficult long-term strategies for establishing a business (Yoon, Ekinci, 2003). Today's leading companies operate on a global basis, cooperating with suppliers, partners and a multitude of stakeholders in order to deliver service and/or product packages (Paton, McLaughlin, 2008). Service providers who understand the needs and interests of customers thoroughly are capable of incorporating customer knowledge into the operation of the organization when enhancing the service intensity. This is not only helpful for the integration of the relationship and input of resources, but also has a positive effect on the improvement of customer satisfaction (Lin, 2007). Therefore, service quality management may be a key factor for the success of service organizations within the knowledge-based economy.

Based on the above we may conclude that there are changes in the conceptualization of the management of services within the knowledge-based society, which have profound implications on the practices of service organizations.

The second step in our reasoning is to explain the service-dominant logic and its effects on the management of services. We may advocate that changes in the management of services within the knowledge-based society have their roots in the new so-called "service-dominant logic". In this service-dominant logic service is seen as a process, while in the previous goods-dominant logic services were seen as units of output (Vargo, Lusch, 2008). This new approach is driven by an intrinsic purpose of doing something for and with another party, hence it is customer-centred and customer-responsive (Lusch et al., 2006).

The service-dominant logic is more a philosophy rather than a theory, in the sense that it involves changing the way of thinking about it in some fundamental way. As some authors asserted (Vargo, Lusch, 2008, p. 258), the main changes are:

1. "From thinking about the purpose of firm activity as *making something* (goods or services) to a process of *assisting customers in their own value-creation processes*";
2. "From thinking about *value* as something *produced* and sold to thinking about value as something *co-created* with the customer and other value-creation partners";
3. "From thinking of *customers as isolated entities* to understanding them in the context of their own *networks*";
4. "From thinking of *firm resources* primarily as *operand* (i.e. tangible resources such as natural resources) to *operant* (i.e. usually, intangible resources, such as knowledge and skills)";
5. "From thinking of *customers as targets* to thinking of *customers as resources*";
6. "From making *efficiency primary* to increasing *efficiency through effectiveness*".

This approach has various effects on the management of services. It implies relationships between the service organization and its potential clients, and collaborative work with them and with other partners, which leads to co-creation of value for use (Lusch et al., 2006).

In service-dominant logic, knowledge and skills are key resources for competitive advantage (Vargo et al., 2008, p. 148) derived from collaborative competence which enables firms to adapt to dynamic and complex environments (Lusch et al., 2007). All participants in the value co-creation process are dynamic resources, which both devolve and evolve in scope and effectiveness (Lusch et al., 2006).

Ultimate value is not created (or added) by the provider of the service, but rather co-created with the customer and determined by the customer's assessment of value-in-use. Thus, the firm can only make a value proposition (an offer of value creation) and then, if it is accepted, value is co-created with the customer (Lusch et al., 2006). The changes in the way of thinking about value creation have implications on service organizations, their clients and the entire society in the sense of accentuating the role of collaboration between actors involved in the process of providing and receiving services (Vargo, Lusch, 2008).

All these changes in the way of thinking about service, value creation and the management of services itself seem to influence the practices in the management of services within the knowledge-based economy and society. The managerial

objectives, resources, relationships and methods used are all changing. Furthermore, business processes are changing due to the information and communication technology development, and their increasing/widening acceptance in day-to-day life. The application of information and communication technology in business processes leads to e-business. This may be defined in the broad sense, relating both to company external and company internal processes, considering that it includes external communication and transaction functions, but also information and communication technology-supported flows of information within the company (E-Business W@tch, 2007, p. 263). Thus, e-business currently symbolizes new ways of conducting business, where electronic networks of companies make e-business an inter-organizational activity to a large extent. The performance of the inter-organizational alliance and the ability of the partners to create value in such networks would therefore depend on their relationship competency. With better knowledge of how to influence their business networks, service organizations could increase their influence and their outcome of such relationships (Eikebrokk, Olsen, 2007). According to Fuentelsaz et al. (2002, p. 303), “in the virtual plane the effort must be made in the direction of studying those activities that are conductors or generators of value, seeking to support and promote them with a view to sustaining this value creation”. However, the same effort is made even though the company provides services in a traditional manner (face-to-face contact with clients). This may be important because traditional business is not excluded by e-business. The distinctive features of the knowledge-based economy allow service organizations to generate value in an electronic way that is an alternative, and not an impediment, to business of a “conventional” type (Fuentelsaz et al., 2002). Regardless of the manner of providing services, however, people (employees, clients, partners, and competitors) are connected via open networks (e.g. internet) and management has to take this fact into account.

4. Conclusions

This study has revealed that some of the hypothesis on service management are no longer valid today, being replaced by new hypothesis more suitable within the global world and the knowledge-based economy. Specifically, the facets of the service management we consider being unconvincing within the knowledge-based economy are customer focus, a holistic approach emphasising intra-organizational collaboration, and internal development of personnel. This conclusion is based on the premises that: (1) the management of services is knowledge-driven; (2) the management of services is a holistic perspective which emphasises network collaboration; and (3) the management of services relies on people’ continuous development as

indispensable for success. Moreover, service quality management as an integral part of the management of services became more important within the knowledge-based economy due to the fact that today's leading companies operate on a global basis.

Further research in this area could focus on investigating the concept and practice of strategic management, which acquire a particularly relevant role within the knowledge-based economy. The specific changes we have identified above, along with the service organizations' need to practice strategic management within the global world are reasons for trying to revise some of the paradigms in strategic management with a view to adapting them to the new realities of services within the knowledge-based economy.

References

- E-Business W@tch (2007), „The European e-Business Report 2006/07 edition. A portrait of e-business in 10 sectors of the EU economy, 5th Synthesis Report of the e-Business W@tch”, European Commission, *Office for Official Publications of the European Communities*, Luxembourg, last accessed October 10, 2010, <http://www.ebusiness-watch.org/key_reports/documents/EBR06.pdf>
- Eikebrokk, T.R., Olsen, D.H., „An Empirical Investigation of Competency Factors Affecting E-Business Success in European SMEs”, *Information & Management*, 44 (4), 2007, pp. 364-383
- Fuentelsaz, L., Maicas-López, J.P., Polo, Y., „Assessments of the New Economy Scenario”, *Qualitative Market Research: An International Journal*, 5 (4), 2002, pp. 301-310
- Grönroos, C., „From Scientific Management to Service Management. A Management Perspective for the Age of Service Competition”, *International Journal of Service Industry Management*, 5 (1), 1994, pp. 5-20
- Grönroos, C. (1990). *Service Management and Marketing. Managing the Moments of Truth in Service Competition*, Lexington: Free Press/Lexington Books
- Lin, W.-B., „The Exploration of Customer Satisfaction Model from a Comprehensive Perspective”, *Expert Systems with Applications*, 33, 2007, pp. 110-121
- Lusch, R.F., Vargo, S.L., Malter, A.J., „Marketing as Service-Exchange: Taking a Leadership Role in Global Marketing Management”, *Organizational Dynamics*, 35 (3), 2006, pp. 264-278
- Lusch, R.F., Vargo, S.L., O'Brien, M., „Competing through Service: Insights from Service-Dominant Logic”, *Journal of Retailing*, 83 (1), 2007, pp. 5-18
- Paton, R.A., McLaughlin, S., „Services Innovation: Knowledge Transfer and the Supply Chain”, *European Management Journal*, 26, 2008, pp. 77-83
- Vargo, S.L., Lusch, R.F., „From Goods to Service(s): Divergences and Convergences of Logics”, *Industrial Marketing Management*, 37, 2008, pp. 254-259
- Vargo, S.L., Maglio, P.P., Akaka, M.A., „On Value and Value Co-creation: A Service Systems and Service Logic Perspective”, *European Management Journal*, 26, 2008, pp. 145-152
- Yoon, T.-H., Ekinci, Y., „An Examination of the Servqual Dimensions Using the Guttman Scaling Procedure”, *Journal of Hospitality & Tourism Research*, 27 (1), 2003, pp. 3-23

Current Economic and Financial Crisis – New Issues or Returning to the Old Problems? Paradigms, Causes, Effects and Solutions Adopted*

Felix TOTIR

The Military Technical Academy of Bucharest
felix.totir@gmail.com

Ingrid-Mihaela DRAGOTĂ

Bucharest Academy of Economic Studies
mihaela.dragota@fin.ase.ro

Abstract. *At the ideological level, the current crisis, as the others in history, has triggered an intellectual debate among several applicable ideas: ultra-liberal theory of the "invisible hand" of Adam Smith, Keynes's theory of state interventionism and even neo-Marxist theories. Globalization, with all its core components, generates a chain reaction when the phenomenon occurs, either positive or negative. The origin of the current financial crisis should be sought in the effects of massive cross-border capital flows and the use of more complex derivatives. Reaching the saturation of the three engines of economic growth worldwide in the period after the collapse of the socialist bloc is another important cause of all the failures that currently exist worldwide. Acquisition of toxic assets from bank balance sheets, their recapitalization and takeover by the state, but also the reinforcement of the prudential supervision of capitalization, liquidity and risk management system, improved transparency and speed the process of evaluating or reinforcing authorities' response to risk, can be considered short or long term anti-crisis measures, as appropriate.*

Keywords: financial crisis; globalization; financial crisis paradigms.

JEL Code: G01.

REL Codes: 8H, 8N.

* Ideas in this article were presented at the Symposium „The global crisis and reconstruction of economics?“, 5-6 November 2010, Faculty of Economics, Bucharest Academy of Economic Studies.

1. Economic and financial globalization, “guilty without fault” in the current financial crisis

The financial crisis triggered in 2008 and fully covered almost the entire planet, turning into an economic crisis cannot be considered a novelty in terms of economic and financial theory. Adam Smith noted the possibility of agency problems ever since “Wealth of Nations”, in 1776. Unfortunately, here it is found that, as Arthur Schopenhauer wrote, “the great obstacle to human progress comes from the fact that people do not listen to those who speak wise, but by those who shout louder.” In addition, we must not lose sight of that, perhaps “the best proof that there are other intelligent life forms in the universe is that none has tried to contact us until now.”

One of the concepts that deserve to be raised when discussing the current financial crisis is globalization – economic and financial. Since the Middle Ages, various elements have created preconditions of capital movements and interdependencies. From the historical point of view, one can remember the emergence of armies of mercenaries (whose training and maintenance required financial resources), the organization of the Crusades (often financed with loans that were to be repaid from the conquest), and the establishment of the first bodies with organizational and financial trans-boundary components (the Catholic Church, the religious order of the Templars). These elements are the motivation and also the support that is given for the first time on a European scale, for the movement of capital. From the age of the great geographical discoveries (roads to India, China, Japan and the Americas), the movement of capital extends beyond Europe. This movement is not only the engine for interstate trade but also the economic backbone that develops and reinforces colonial empires (British, French, and Dutch). Although colonization scores big time, finally promoting political and economic interests on a global scale, several features distinguish it from what we understand, currently, by the term of globalization. This is because, in the considered period, the role of the economy was rather an influential factor supporting the state and not one of its guidance.

In the fullest sense, one can speak of globalization widespread only after 1989, which marks the dissolution of the socialist bloc and the disappearance of the antagonistic ideological bases. With this, it opens the way for the natural tendency of expansion of the economy (Soros, 2002). A feature of the current economic globalization is its manifestation through the financial globalization, as its principal instrument.

The concept of financial globalization today is not objectionable, especially since the first truly global crisis in the history of the modern world is

a concrete evidence to support the validation of its existence. Years 1989-2008 are those in which globalization has become a defining aspect of social, political and economic life worldwide. Moreover, one can say that for the first time, this term has a meaning of its own, without exceptions. The term *globalization* brings together several concepts, such as the development of global financial markets, the increasing role of transnational corporations and their growing importance in relation to national economies. Taking place, as contemporary history confirms, under capitalism, globalization is dependent on its traditional battle cry: “*to conquer*” became “*to sell*”⁽¹⁾. As a channel for rapid spread of economic interests, the movement of capital has come to identify with globalization as a phenomenon, so that today we can speak, identifying fully with one another by financial globalization. Its extraordinary magnitude is due to synergy of fundamental elements: technological innovation, financial innovation and culture innovation⁽²⁾ respectively.

Technological innovation is, in fact, the sum of the same pillars of globalization: the development and popularization of mass media and the communication and action at a distance technologies (cell phones, credit cards, telephone banking, Internet), which offer the economic or political factors rapid means of information and coordination at a distance. They serve spatial dimension, to which temporal dimension is added: not only that rapid intervention is possible in any market in the world, from distance, but also opportunities for transactions became continuous: when European and American markets close, the Asian ones open.

Financial innovation ensures fluidity of capital flows. Thus, if we keep the previous analogy, the system becomes truly one of the communicating vessels. There are no more isolated regions or relaxation times of global financial market (because, since we accept the idea of financial globalization, the existence of global financial markets is self-evident – only the degree of integration varies). One element of this financial revolution (compared with a conservative approach in financial markets as simple intermediary of *tangible* goods, measurable in capital) is represented by the products of derivatives (forwards, futures, options). Essentially, through derivatives, everything is measurable in capital, at minimal costs, such as: contracts, currency values, deposit certificates, goods. Originally occurred as a substitute for insurance and need for a stable financial outlooks (by guaranteeing a minimum price for sale of products), derivatives quickly became the target of speculators, and so became betting tools.

The second core factor under which the financial innovation acts is the deregulation of capital markets, both in terms of restrictions on operations, control of associated risks and as well as eliminating political or regional

boundaries as a limiting factor of capital movements. Financial institutions, especially investment banks, take advantage of the elimination of many hedging rules, especially those prudential⁽³⁾, one example being to repeal the law of separation of activities between investment and commercial banks, issued in the U.S. in 1933⁽⁴⁾ and repealed in 1999⁽⁵⁾. These steps have improved the efficiency and competitiveness of the system, but opened the possibility of slippage. Free movement of capital has found significant support, at the global level, in the existence of tax havens, countries that attract significant capital through lower taxes or absent ones. Sometimes almost irrelevant as markets or production facilities, these countries cannot benefit from tax advantages, unless the absence of barriers to capital movements (repatriation of profits, for instance).

Finally, if the technological and financial innovations have provided mechanisms for constructing financial globalization, the *cultural innovation* is the one which put the whole mechanism in motion. It is the motivation and justification for the operation mechanism of financial globalization. First, cultural innovation occurs as a consequence of a fundamental element: the spread of information at planetary scale allowed not only the initiation of trading, but their acceptance as part of the way of living of mankind. It is even said that⁽⁶⁾ “until now there has not been a human society”, meaning that only today we speak of forms of association that are spreading throughout the world, and that until now all possible players have never been together at the same table. The world has become a single social system as a result of the development of interdependencies that affects every person. Social, economic and political ties that cross borders between countries have a decisive impact on those who live in each of them.

Therefore, mediated by the same technological innovation, the flow of information from all over the world led to the elimination of isolationist, autarkic tendencies, which often had psychological rather than real bases. At present, we can discuss also about media and behavioral globalization, about the spread of television, Internet and other forms of communication and the increased mobility of marketing ideas. All this neo-literacy, although not without some adverse side effects of this phenomenon⁽⁷⁾, was translated into financial terms: if it was normal to buy products manufactured in other countries, economic players (but the issue is more imperative or individual investors) found natural to shift savings in other countries. It is therefore natural today for an investor to diversify their equity investments not only at local and regional but also at the global one. Furthermore, this new attitude is no longer just a singular phenomenon, but a global and even a country policy. In support

of this assertion, it suffices to mention the sovereign funds as state investment vehicles⁽⁸⁾.

All this manufacturing, commercial, and financial interdependence (trade deficits are funded both through investments in financial instruments and foreign direct investment) manifests itself today as a huge flow of transnational capital. Even before the complete dissolution of the socialist bloc (in 1990-1991), daily trading volume reached an average of 900 billion dollars, equivalent to an annual GDP of a developed Western economy (France)⁽⁹⁾. In 2008, one bank (RBS) announced a loss of about 28 billion pounds, equivalent to 41.3 billion dollars (Thal Larsen, Croft, 2009): figures may be abstract, but the amount involved is approximately equivalent to the annual GDP of Kenya. This ever-moving tide of capital has created a continuous game of investment opportunities, arbitrage opportunities and sources of funding, to such an extent that private financial flows can impose political and economic consequences at the country level⁽¹⁰⁾ (something unimaginable a century ago, for instance). The vision is confirmed by the words of Maurice Allais, Nobel laureate for economics⁽¹¹⁾: “The world has become a large casino where the tables are distributed at all longitudes and latitudes”⁽¹²⁾.

2. Causes and mechanisms of the current financial and economic crisis

A current phenomenon still to be defined and understood is the economic crisis that has become obvious since 2007. We can say that the manifestation of the current crisis has its origins in the subprime loans, which covered the mortgage credits secured by the goods purchased, granted to US citizens who do not meet certain conditions of reliability. These loans, with a total amount around 1200 billion dollars, have been distributed primarily since 2000. Converted by securitization in bonds (CDOs - Collateralized Debt Obligation), they were then transferred to banks and investors worldwide. When real estate prices began to fall, these loans could not be repaid, thereby rendering abysmal losses for buyers of such securities based on subprime loans.

Financial market events have had a causal effect, creating congestion and leading to cessation of investment but perhaps to a still greater extent, they have established a very strong signal of the existing difficulties and remained hidden. These hidden failures came to light gradually, but it is difficult to predict to what extent the findings string ended.

On the other hand, opinions regarding the crisis triggers diverge even among recognized experts in the field. Without pretension to overcome their own point of view at a comparable level, we try further to explain some features of this worldwide phenomenon.

Thus, the current financial and economic crisis is primarily a smooth event that accompanies almost always, the reallocation of the political and economic roles worldwide. It defines not just the system change in the global economic growth, but the overturn of those growth engines. Even if the two situations, the pre-crisis and post-crisis, are stable in themselves, the transition from one to another can be particularly lively.

Let's point out, first, the degree of relativity of financial jam. Since most financial transactions (even loans) are zero-sum games (and the problem should not be viewed only from the parties directly involved in such transactions, but from the point of view of all economic players involved), the difficulties encountered for some of the players on the capital market are also opportunities for others. The huge losses of some people became earnings, also huge, for others. Even the collapse of the banking institutions that have relied on subprime credit derivatives has translated into significant gains for some hedge funds. Strictly from a financial standpoint, even the cases classified as losses or fraud are, in fact, redistribution of wealth. Of course, this does not in any way constitute an excuse for such errors, which are many of them illegal and immoral. The psychological and financial impact at the individual level, the emergence of personal tragedies, the new sources of inequality, and so on, should also be taken into account. However, in purely economic terms, the sums of money remain on the market and do not disappear, only their perception change⁽¹³⁾.

From our point of view, the crisis is, in fact, a different set of failures, but whose interdependence clearly illustrates the degree of economic and financial globalization in human society today. Consequently, one of the reasons is reaching saturation of the three engines of global growth in the period after the collapse of the socialist bloc: relocation, credit and consumption.

Therefore, *the relocation* guideline was to move its production facilities in areas with cheap labor, usually in less developed countries, poor or barely out of the system of socialist organization. Products shipment costs to developed countries were, in most cases, negligible⁽¹⁴⁾ compared to the savings through the use of a cheaper labor. This has had beneficial effects on businesses that have relocated production, in that profit margins have increased (due to lower production costs). This gain return has allowed financing of what might be called "structural deficit"⁽¹⁵⁾ of the domestic economies of players that are in the process of relocation to other regions: the increase in unemployment caused by reduction of jobs, a loss of economic autonomy for the domestic state and, last but not least, a loss of exclusivity of technological excellence.

Among them, unemployment has been disguised in what was called the "reorientation" of the economy and its center of gravity shifted from industry to

services (including financial ones that were among the most prominent). The loss of economic autonomy for the countries of origin has, in essence, weakened their strategic skills, as a result of overcoming importance of strategic security at the expense of profitability. For example, relocation of production capacity has resulted in establishing a relationship of manufacturing dependency to new manufacturing locations. In a completely homogeneous global economy, where competition would be the criteria that pertain to economic competitiveness, this would be irrelevant. However, as manifesting in times of crisis, the tendencies to return to autarky and the ultra-specialization in services has disadvantages because often they are seen as a highly profitable industry, but not essential. One of the paradoxes is, therefore, that developed countries are now more vulnerable to protectionist measures than the less developed and, therefore, less specialized. Finally, the relocation of production inevitably led to the need for technology and knowledge transfer. While developed countries have maintained exclusivity in certain sensitive areas (production and military research, robotics, certain software technologies such as encryption programs), the current economic interdependence makes exploitation of these benefits to be very difficult, even impossible, as in, for example, the rule in the military. Also on the same line, many of these areas of excellence, even exclusive, are present in a position to be considered overvalued in times of crisis.

This structural deficit could be financed by the new profitability derived from lower costs of production. The relocation still remains an important resource for growth, however it has lost, at least its inexhaustibility appearance. First, after integration into the global economic system⁽¹⁶⁾ of former socialist countries, Southwest Asia and Latin America⁽¹⁷⁾, geographical expansion of the economy has reached its maximum size. Then, after a first stage when the globalization of production led to lower prices, and the subjects of developed countries have adapted their lifestyle to this premise, in a second stage, the trend has reversed: salaries in targeted states of relocation began to rise⁽¹⁸⁾, even without reaching the level of home states, in conjunction with the difference in labor productivity, gains brought by the relocation, have been canceled. Classical solution would be relocation to new areas, but they were simply physically-demographic unavailable (Antarctica, Greenland), political (North Korea, much of Africa) or legal (Native American reservations).

The credit during that period became a substitute for wealth. This trend is easily explained by the following: one of the issues brought by the relocation of the developed economies has been the increasing asymmetry in the distribution of profits. If in the previous period the profits were distributed among the shareholders (as dividends) and employees (as wages) in the same state, the

relocation led to redirecting part of the profits that could be due to employees (however, in a smaller amount since labor is cheaper) from employees of member states of origin to targeted countries employees. In doing so, the population was largely devoid of direct contribution of the new investment. However, the increasing sense of wealth, far from decelerating, amplified. The credit allowed this substitute. The relaxation of lending standards and terms created the possibility of accessing them by a majority of the population who now could afford buying such expensive products, traditionally reserved for the rich. Coupled with some psychological issues that tend to favor the immediate satisfaction, the consumers in the home countries have not realized that, in fact, their purchasing power was no longer *the ability to purchase goods*, but the *ability to buy credits*.

For a good period of time, however, additional financial flows arising from the increase in profit margins through relocation led to inflation in some sectors of the economy. The most obvious of these is real estate. Availability of some economic players (mostly owners or shareholders of companies that benefited from the relocation) to acquire luxury properties has increased the price. The trend was reinforced by the preference of many of those who acquired wealth in emerging countries to acquire real estate in the developed countries both of business and sentimental reasons, but also political ones: these properties constitute refuges on a democratic field with almost fully respected human rights in the event of difficulties and conflicts with governments of their countries of origin. Finally, easy access to credit has reinforced the upward trend of prices. As long as these citizens were real estate owners (at least in the script, without taking into account the risk of mortgages and enforcement of bank guarantee) and the value of their market trading continuously increased, the amounts available through loan became increasingly higher, which allowed new acquisitions and, therefore, a further increase in prices. The trap of this practice, which was unnoticed and eventually led to the establishment of a real estate bubble, was that the price increase became self powered: the reinvestment of a part of the capital – became available after the relocation – to real estate, led to a price increase, but this financial resource was not sufficient to support a mass phenomenon. That capital was one of the few rational reasons to increase prices.

Consumption, the third engine of growth observed, benefited fully of this increase in price and augmented real estate values that could be borrowed, on one hand, by the fact that it supplied liquidity on the market, and on the other hand as a matter psychological known as the “hair salon paradox”⁽¹⁹⁾. Funding was made not only for the consumption at the individual or business levels, but has become even country policy. This was accepted by both the states which

borrowed to sustain the tendency to consume and those who finance the deficit of this approach with their trade surpluses, depending on delivery market of consuming states. US and China's example is telling in this regard, the US debts being extremely large.

3. Paradigms and models of economic and financial crisis

Although the guideline for the explanations of discussed economical-financial crisis remains linked to the credit and “irrational exuberance” that the markets have gone from one bubble to another (“dot-com”, “subprime/mortgage”, “oil” “treasury bills”⁽²⁰⁾), one of the fundamental questions that arises from an economic point of view and financial approaches attempt to answer is the degree of foresight and the “normality” of the crisis. Beyond the debate about whether the role of extreme crisis in the economy and their interpretation both as a confirmation of the ultra-liberal theories and as an argument for interventionism, we will consider further some of the traditional financial theories, the applicability of which we will comment in relation to financial and economic crisis.

One of the financial and economic theories is that of cyclical economy, on long term, or super-cycles theory in the framework of Kondratiev waves, which includes Juglar conjectural cycle. These cycles are defined as regular, sinusoidal, which is manifested in the modern capitalist economy, whose extension varies between 40 (20, according to some sources) and 60 years which is alternating periods of growth, stagnation and decline (recession), showing an inflection point in between the first two phases. The cycles identified by Nikolai Kondratiev (1925)⁽²¹⁾ at the time were 1790-1849 (from the French Revolution to the Revolution of 1848), with an inflection point in 1815 (after the Napoleonic wars), respectively, 1850-1896, with an inflection point in 1873 (imposition of Germany as the dominant power on the continent). It also advanced the hypothesis that a new Kondratiev super-cycle started in 1896. In the XX and XXI centuries, there is an opinion (Joseph Schumpeter, 1961) that the third cycle (remembered by Kondratiev) had an inflection point in 1929 and ended in 1945 (along with the Second World War) and a fourth super-cycle would have overlapped the Cold War, 1949-1989, with an inflection point in the period 1968-1973 (Vietnam War oil shock). Extrapolating, one can consider that we are witnessing the fifth super-cycle, which began in 1990 and had an inflection point at the end of the decade '90, with the bubble “dot-com”.

Juglar term cycle (Juglar, 1862) consists of four phases namely: expansion, crisis, recession and resume and has an average duration of 8-9 years.

If the period of expansion (low amplitude) is characterized by the development of the credit market due to increased production and incomes, the crisis is characterized by stagnation in the production and a change in the economic climate. Recession phase brings an acceleration of decline in production, income and phenomena arising from it: unemployment, inflation, growing of the interest rates, etc. (i.e. economic phenomena from the period 2008-2009).

According to the two theories, there are two downward cycles, and solutions to escape of this trend will require changes in the technical, economic, social, redistributing resources or finding new resources. Individual and collective economic behavior, repeated by each generation, according to Kondratieff's theory, can be held responsible for the current situation. When starting the crisis, if economic mechanisms and social protection are well in place they can mitigate the shock. Also, in any case, short-term economic benefits must be sacrificed for long-term social interests of society. The fiscal and budgetary policy of a country has a decisive role in the prevention, management and even overcoming of the economic crises.

In addition to the economic phenomena classification typology made by Kondratiev, we must take into consideration also the social changes, especially the perception and public attitude in accordance with them. Therefore, during the phase of expansion and growth, general attention is focused on the accumulation and innovation – leading to significant vertical social mobility. In the resting stage which follows, the attitude tends to change in that profiting from accumulated wealth, which inherently leads to a more relaxed and more inefficient attitude. Finally, during the recession, a social restructuring is developing, preparing the new action and innovation vector fields in the economy. Their coverage is also current for the modern society.

The fact that the current economic and financial crisis can be placed in such a cycle is, a posteriori, justified, the crisis marking the end of such a cycle (in fact, entering its last stage, namely the recession/depression). However, we are of the opinion that the prediction of a crisis on the basis of such an approach is difficult, even impossible, since it does not take into account the fundamentals, but supports an independent external manifestation. Of course, one can accept that the recession will eventually occur, but the location in time, a priori, of that moment is less predictable.

Another financial crisis theory was proposed by Hyman Minsky (1974) who has advanced the hypothesis that financial fragility is, in fact, an inherent feature of capitalist economies and it stems from the very assumption of profit maximization tracking. This level of fragility is dependent on the economic cycle's phases of development. Thus, immediately after getting out of recession, economic players are primarily directed towards the safest

investments. As the economic climate improves, investors tend to gain confidence and move towards speculative investments, on which, they hope, the profits gained will exceed the costs (usually with interest) made to make those investments. This phase marks the transition to economic self-sustaining, meaning that more of these loans lead to more investment, so the economy tends to rise further. Finally, confidence in investment success is so high that loans are granted even to those companies that are not able to pay, but is *expected to increase* their profitability to the degree to which placement becomes profitable. The stage when this attitude becomes widespread is called Ponzi financing schemes; being just a matter of time before entering in default. Once the risks are apparent, the loans are shrinking, which hinders the refinancing of those economic players with likely return. As a result, the financial crisis turns into an economic one. During the recession, attention is turning again to the safest investments, which marks the beginning of a new cycle.

This paradigm, although originally formulated in the context of a closed economy (the intervention of outside capital is excluded), gained world-wide applicability, in terms of economic and financial globalization. Furthermore, Minsky's theory provides an item that it has already mentioned, respectively the shift of the creditor attention from the debtor's ability to pay to the growth prospects of the collateral. From this point of view, the theory is applicable, without being general – for example does not take account of innovative investment vehicles, reconciliation, financial bodies' interventions, etc.

Another theory that must be mentioned in this context is the one of coordination games, developed by the American mathematician John Nash. These are games in which participants choose similar strategies. In case of economic models, they are manifested in the form of the positive feedback received by the economic players. This translates, among other things, through sudden changes of asset prices as a consequence of relatively small changes of economic fundamentals – for example the value of one stock can be maintained constant for long time until it reaches an avalanche multiplication of sales and the share price greatly decreases. A similar phenomenon occurs in massive withdrawals of deposits from the banks: depositors withdraw their money because they expect others to do likewise. A similar behavior can happen at the level of speculative operations – the speculative investors may decide to attack or not a particular asset on the basis of their *expectations* concerning the decision of other speculators.

This theory is manifested on the capital markets either in the form of bubbles, or in the form of crashes. Both situations, themselves, are economic equilibrium points: one in which participants invests in assets (stocks) because

their value is expected to grow, and another one in which the participants retire just because the price of those assets is expected to suffer declines. In the turbulent stock market history occurred predominantly after the second half of 2008, this theory retains its validity and its area of coverage is not limited to capital markets only. Generalized decline in US housing prices is another example.

Other related party paradigms, namely financial theories based on grouping models and models based on adaptation tries to explain the appearance of inflationary or deflationary spiral as *the information* (in the previous model of coordination games, it was about *expectations*) is transferred from one investor to another. For example, in this model, a type of asset that is subject to certain purchases by investors becomes attractive to other investors, not because it would increase its intrinsic value but on account of behavioral contagion. In other words, it forms the view that the asset is valuable since other investors are buying it.

The grouping models (Chari, Kehoe, 2004) assumed that investors are rational, but have only partial information about the economy. Acquisition of a particular asset is interpreted as a signal of the existence of a positive information on the asset (even if its nature is unknown), this event leading to more purchases of that asset. Reasoning, in itself, is logical, but may lead to over or underestimating of an asset because the evaluation is based on unknown information, so that the value of the asset cannot be assessed on fundamental considerations. In addition, the first investors' decision to purchase that asset may be, ultimately, a wrong one.

In adapting models is assumed a certain degree of investor irrationality in the sense that decisions are taken – logical indeed – just on the basis of recent experience (bounded rationality). Thus, if an asset price sustains increases on a period of time, investors' expectation is therefore that the price will continue to grow further (in a similar way to decrease). In other words, markets tend to create trends that are up to an exaggeration, in positive or negative values, and then turn to opposite trends.

Finally, a sociological type financial theory is proposed by the investor George Soros. He claims in his paper published in 2008⁽²²⁾ that, while future-oriented, financial markets cannot properly estimate its trend because their action ultimately influences the very trend that it seeks to predict. Such an interpretation is called the theory of reflexivity (Soros, 1988). This theory constitutes a counterweight to those theories built around the concept of efficient market, that it recognizes the emergence, as a consequence of reflexivity⁽²³⁾, of the dynamic imbalances (and lag informational efficiency). These imbalances are mostly violent and so may affect the economic

fundamentals. The paradigm contradicts the accepted traditional role of financial markets seen “only as barometers”. Without exaggeration, we can conclude that this phenomenon manifested itself in the context of current economic and financial crisis. However, the theory states that economic and financial events (and also the social ones) do not tend toward a steady point, but due to a positive reaction, are essentially characterized by instability and evolution is a sequence of disturbances. One of the paradoxes of the theory is that it recognizes the impossibility of the existence of a perfect individual knowledge of the truth⁽²⁴⁾ on any condition (economic, for instance), but does not admit – unlike the theory of information efficiency – the superior group intelligence (or “market”) and therefore do not exclude the possibility of gains by exploiting the opportunities offered by capital markets at a point in time.

In the specific context of the subprime crisis emergence, the theory of reflexivity is an example in the following manner (Lynch, 2008): the belief that some players had that they understand the mechanism of the market encouraged them to create CDO-type derivatives. The emergence of these tools has triggered a growing interest (and, later, a bubble) in relation to assets on which they were built, namely on housing mortgages. In this way, the direction of economic development has been influenced (for example, by focusing on real estate activities) by this financial product.

5. Solutions adopted to counteract the effects of economic and financial crisis

Since the primary elements of the financial crisis are known (uncontrolled expansion of credit), it is natural to look for remedies in the same category. For some of them attempts were already made to implement, while others are monitored by financial and regulatory bodies.

One of the first measures taken by financial institutions (the Federal Reserve and US Treasury) was implementing the TARP (Troubled Assets Relief Program), seeking to take over toxic assets from “weakened” banks’ balance sheet and then auctioning them on the open market⁽²⁵⁾ to discover (and also validate) their fair price and to build a market for these assets. Although, at first, this type of operation was favored by the US administration (the first half, in amount of \$350 billion, of the \$700 billion bailout plan proposed by Henry Paulson has been dedicated to this purpose), it was abandoned due to the large amount of such assets, present in many financial institutions’ balance sheets that would have risked setting a very low market price for those assets. However, this would have forced these financial institutions to assets devaluation and recapitalization operations. At this level, the main disadvantage would have

been the difficulties of attracting new private capital⁽²⁶⁾. Another problem was that it would have led to high (public) costs, due to the large amount of such a toxic assets and would have favored the shareholders of those financial institutions, by eliminating the risk of bankruptcy, and also by the supplementary gain which the acquisition of toxic assets from public funding at a higher value than the market one (to avoid depreciation of assets) would be delivered to them.

As a result, an alternative approach was decided instead, namely to recapitalize banks and take over state participation in them. In contrast to the previous solution, this time, those who lost were the shareholders of those banks, the value of their shares being strongly diluted as a result of recapitalization. On the other hand, the creditors of those financial institutions were favored by the gain solvability of the latter. An unresolved issue, however, remained the increased (incorrectly founded and unfair in comparison with other economic players) of the market value of receivables held at that specific financial institution.

Finally, a third means of intervention used was to provide state guarantees for debts of poor quality. To prevent abuses, providing guarantees involves a certain cost: either as special taxes, as acceptance of stricter regulations, or setting up of a franchise by which losses had been further incurred to that financial institution. Other governments (i.e. French) have chosen for the creation of investment vehicles such as sovereign funds⁽²⁷⁾ that, although State capitalized, act mainly on independent bases.

At the level of the financial regulations, one of the measures taken was banning the “short sale” operations. For example, the US Security and Exchange Commission has banned on 19 September 2008, the sale of this kind of a number of 799 companies, to protect the integrity and quality of capital markets and strengthen investor confidence⁽²⁸⁾. The measure, originally announced as being valid until October 2, 2008, was subsequently reconfirmed by a later date (October 17, 2008). Note that an explicit prohibition of such operations is not the only way to reduce short-selling operations. These operations become limited sometimes, because even the shareholders of ailing financial companies become reluctant, in case of a prolonged downward trend, to lend shares to the investors, who then take short positions, as they become aware that these operations will lead to depreciation in value of their holdings.

In addition to these measures, other reforms related to the financial system have been also proposed to improve its operation and remove the possibility of bottlenecks such as the current economic and financial crisis. Thus, the Institute of International Finance has proposed⁽²⁹⁾ the reconsideration of the risk management practices (corporate governance weights redefining,

risk culture, risk manager's role and complexity of derivatives and secured instruments), policies of compensation (by aligning the interests of shareholders to management company), assessment, credit and ratings granting and ensure transparency of activities, both in the financial instruments (standardization, harmonization of regulations, the adoption of common platforms and technologies, use and regulation of securities trading) and for financial institutions (establishment of codes of conduct, the obligation to publish the exposure of secured products, risk management strategy adopted). Along the same lines, the Financial Stability Forum presented to the finance ministers of G-7 and central bank Governors a report⁽³⁰⁾ which proposes five areas in which recommendations are concluded, namely: 1) reinforcing prudential supervision of capitalization, liquidity and risk management system (by setting conditions related to capital and liquidity management by taking into account off-balance sheet assets in determining risk, quality assurance, operational structure for derivatives), 2) improving transparency and evaluation process (the declaration of risks, standardizing the accounting and reporting of off-balance sheet assets, the widespread use of international valuation standards, securitization processes transparency), 3) reconsideration of the role and purpose of credit rating (improving the quality of marking, setting differentiated ratings for complex financial instruments, quality assurance data used in scoring, changing the perception of investors and regulators on the importance of ratings and their awareness of relativity), 4) reinforcement of authorities celerity (rapidity) of the response to risk (by defining procedures for immediate action by the outcome of risk analysis, enhancing mutual information between the various regulatory and control bodies, engaging them in setting international policy in the field) and 5) making sound arrangements for cooperation in case of emergencies in the financial system (the central bank, changes in reserve ratios against degree of solvency and liquidity of banks and the overall financial system).

6. Conclusions and perspectives

Although the opposite was long hoped regarding the financial environment, one can say today that 2010 has also started under the auspices of the global crisis. While the history of the past three years has been witness to numerous attempts to solve this problem and restore a rhythm of growth, the recession has affected several countries – and in others, the prospects are also, somber. Started first in the US, the shock wave has spread rapidly throughout the world. As we mentioned at some point, this global storm is a clear demonstration of the interconnections between economies of different

countries. What differs, however, is the impact on the economy of each country according to its peculiarities.

The most affected economies appear to be those where speculations had become normal before the crisis. Many banks have gone bankrupt because of over-indebtedness and lack of liquidity. Mostly affected by layoffs and unemployment were financial services and real estate sectors. The crisis itself appears to be the convergence of several economic weaknesses. First, the global financial crisis is expressed by the reduction and more expensive (in terms of interest rate) loans. This is the apotheosis of many years of “cheap money” when the loans were given without any query about the creditworthiness of applicants. US subprime crisis has its roots in the ease of loan⁽³¹⁾. Sudden rise in the price of credit has led to very rapid decrease in demand. Not only individuals saw their purchasing power diminished, but the banks themselves have felt a very tangible threat of bankruptcy. This translated into a vicious circle in which companies needed cash to survive for times when sales are falling and banks, which typically funded those companies, withdrew their support.

Secondly, the decreasing in the purchasing power and installing a quasi-generalized fear of spending has left many countries, which relied on exporting their products to other countries, without buyers. This gave rise to a sudden crisis of overproduction, similar to that of 1929-1933. Among the countries affected mostly by this crisis are China and Japan, whose economies were supported mainly by exports.

Thirdly, a bloated financial system replaced a significant part of the “real” economy in some countries⁽³²⁾, like Britain, Iceland, Switzerland and again, US. For several years it had become essentially a speculative environment, supported by continuous self-overvaluation of assets traded, thus the characteristics of a bubble. This proportion has remained largely a foregone fact, first because of the abundance of cheap money (remember the Federal Reserve reference interest rate reductions after the incidents of September 11, 2001), and due to psychological reasons that the bubble will continue, supported by belief that banks are too important to fail and finally as sophisticated financial instruments (debt securitization as CDO, mechanisms for hedging, derivatives, etc.) have created such complexity that almost any analyst (including rating agencies such as Standard and Poor’s, Moody’s, etc.) failed to provide – in a convincing manner to the mass of investors – the danger.

Diversity of causes makes effects on each country to be also different. For example, the US struggle with double weight due to the inflated financial system and the years of the financial bubble, but still enjoys the presence of an important and highly competitive industry worldwide. Things seem to be more

difficult for Britain, due to the added effects of the devastating years of relocation and deindustrialization. Both countries pay tribute somehow to periods of economic and financial ultra-liberalism; debt policy known as “reaganomics” and “thatcherianism” and the spread in the whole economy, both public and private, resulting in deficits both ways, speculation and over-valuing power generation mechanisms of the so-called “smart money” to replace the traditional approaches of creating wealth (production, value-added services, etc.).

Among exporting countries, China is suffering because of how its economy is built up, with a relatively low domestic consumption and exports to the predominant orientation, with a specialization in particular in the mass production and medium quality, where the high-tech and design are less representative and a currency (Yuan), whose exchange rate is artificially maintained. On the other hand, Japan is not only dependent on exports, but must also cope with an ageing population and an overburdened social security system. In addition, this state of facts has led to a de-motivating behavior of the new generation, many of their members rather being in a state of waiting for future opportunities (bequests, grants, etc.).

Small countries are not immune to crisis: for example, Iceland's economy (and, partially, Switzerland) is crushed by the weight of over-extended banking and debts contracted by its own citizens. After years of mastering playing cards in financial services, it found itself in the vicinity of national bankruptcy. Problems are aggravated by the country's limited population that can not sustain huge debt resulting from the nationalization of banks. In addition, neither Iceland, nor Switzerland is supported by the European Union as a protective umbrella. Therefore, devaluation of their currencies tends.

Russia and oil exporting countries are put into the rapid depreciation of their main asset – the natural resources (for example, the most famous Russian economic giants in this field are: Gazprom, Lukoil, Norilsk Nickel, etc.). Although, on the long term, these countries should be able to overcome this crisis and return to see the benefits, they suffer from immediate emergencies: falling prices combined with reduced demand threatens to short-term bankruptcy. In addition, Russia has faced, from war with Georgia – taking place in a market already demoralized and panicked – with mass withdrawal of foreign capital that broke the Russian stock market. Collateral, this situation has generated multiple margin calls for many Russian businessmen that guaranteed with shares the loans taken from Western banks. Russia's situation was worsened by the fact that trying to maintain the purchasing power of its own citizens, the Russian Central Bank intervened to support the falling national currency, selling the currency and reducing this effect and thus reserves.

European Union (and, in particular, the Euro) has benefited both from the advantages and the constraints of a single currency. It can be appreciated, on a global scale, that its existence was a stabilizing element for the economy. The significant growth potential posed by the former socialist states which joined the EU or the Euro area, provides an application of products and services which, although relatively small, it proves a saving element. Due to the single currency, public deficits of EU countries, mainly made due to transactions with other EU countries, have not become as much a real economic problem (and no devaluation has occurred because of them) but rather grounds for punishment from the European Commission (let's note, however, that the EC has shown relatively flexible and understanding in relation to public deficits in this period of economic unrest – such postponement allowed to restore the balance of France's budget for 2014, although initially this had been requested for 2012). In particular, although affected by the real estate bubble, Spain benefits from membership of the Euro zone, the purchasing power of its citizens being preserved in the absence of currency devaluations.

In South America, Brazil is an example of the less affected by the crisis. Moreover, the country has had a good opportunity to increase their role in the global economy, manifested by the leverage in the WTO negotiations. In a world whose oil reserves are declining, Brazil almost universally uses its own propulsion technology vehicles based on the use of an alternative fuel - which makes it almost self-sufficient in terms of energy. In addition, a major oil deposit⁽³³⁾ has been discovered in the country's territorial waters, which positions Brazil immediately after the Venezuelan operations and export potential. To these are added the enormous potential of its territory, still poorly explored, in terms of agriculture and natural resources.

Finally, we conclude the example series with India, an economic power on the world scene whose importance is becoming increasingly mentioned. India is attracting a broad range of traditional financial flows generated by business from London or New York (Bombay is the most important financial center of India), takes benefit of the existence of a huge population (although still poor), that brings with it a significant potential for internal consumption, but also scientific and technical innovation. Among the less favorable aspects for the Indian economy one can indicate internal political instability (latent conflicts with various minorities, for example Sikhs) and tensions on the border with Pakistan (and, to a lesser extent, from the border with China) that are potential threats to country's economic future and tend to keep foreign investors away.

It can be concluded at this point that the crisis varies from country to country, although the common point is the presence of these effects in most

states. Possible solutions differ according to events. Thus, for over-indebted economies, stabilizing and reducing deficits seem to be priorities, which may be made possible by the devaluation of currencies. For those countries that have relied primarily on exports, the solution should be an increase in domestic consumption or an adjustment of production capacity (which will lead to redundancies and increased unemployment). Finally, the whole world seems to rely, more than ever, on future growth and development of emerging economies. The future consists of years of building infrastructure, improving living standards, and taking advantage of a still relatively cheap workforce. Combined with reduced financing needs (for those states that are not heavily indebted – as is the case in Romania), the premises shall ensure sustained economic growth.

At the ideological level, the current crisis, as others in history, has triggered an intellectual debate among several applicable ideas: ultra-liberal theory of the “invisible hand” of Adam Smith, Keynes's theory of state interventionism, even neo-Marxist, theories, and so on. The main debate focused around the idea of autonomous self-regulating market, namely whether or not this crisis invalidates this principle. From the economic point of view, an interventionist system or, at extreme, planned, leads to a significant cost: the extensive development of the state apparatus, the need for studies, the readjustment of the decisions and plans, the research and identification of social and economic priorities, etc. In other words, this type of system generates a predominantly administrative cost. On the other hand, ultra-liberal approach showed a reduction of these administrative costs, and proposed reducing the state's role to royal functions (external security, internal security, law defining and providing justice⁽³⁴⁾ etc.). Of course, funding the state apparatus is, in this case, the collection of taxes, but their values should be lower. Moreover, in addition to reducing administrative costs, such an approach creates the premises for optimum allocation of resources based on the principle that resources must be allocated to meet demand. However, an ultra-liberal approach creates a cost more subtle, systemic, i.e. the cost of fragmentation due to gaps emerging in the economic system. One of the platforms on which the system cost is incurred and supported is the economic mobility. This mobility in itself is what distinguishes interventionism/planning, which is founded on the basic stability of ultra-liberalism, which favors optimal reallocating. However, mobility in itself generates a cost – through promotions to attract new customers introduced by the lack of customer loyalty through continuous concern of employees to constantly seek a more profitable job, etc. It can be concluded that both systems: interventionist and liberal ones, generate costs, possibly comparable, but they are distributed differently between the public and private sectors.

Acknowledgements

The research was conducted under National Program Ideas (PN II), financed by the Romanian Ministry of Education and Research, Project. 1831/2008.

Notes

- (1) It should be noted, in the context of relocation, as an aspect of globalization of production also the verb “to manufacture”.
- (2) A similar study is found in the work of Michel Albert (1991), but the pillars identified are innovation, internationalization and deregulation; the author proposes this new vision, more representative, since taking into account the elements of culture.
- (3) But also those of the control, which has hampered the discovery of fraud, for example Madoff business (hedge funds could be forced to declare their assets structure only under certain conditions).
- (4) It's Banking Act of 1933 or the Glass-Steagal Act as it is known the law in question.
- (5) The Gramm-Leach-Bliley Act, a law adopted on 12 November 1992.
- (6) “Until our day, Humane Society never existed...” (Worsley, 1997).
- (7) Movements such as protectionist, xenophobic, etc.
- (8) Some examples are: Abu Dhabi Investment Authority, Government Pension Fund of Norway, Government of Singapore Investment Corporation, etc.
- (9) See Albert, Michel, “Capitalisme contre capitalism”, Editions du Seuil, Paris, 1991, p. 213.
- (10) It can remember the involvement of funds managed by George Soros in the devaluation of the pound and Thai baht.
- (11) In 1998 for his contributions to the theory of markets and the efficient use of resources.
- (12) Allais, Maurice, “La Crise mondiale d'aujourd'hui”, Editions Clément Juglar, 1999.
- (13) Even if the amounts involved would disappear from real financial circuit, this would be offset over time by trading price readjustment.
- (14) Or quasi-zero in some areas such as IT.
- (15) A more practical term would be “weak” or “erosion”.
- (16) In fact, none of these states had been absent from the global economic system, but here comes the new east global economic system, mainly based on financial globalization.
- (17) Deliberately, some areas are not covered: Africa, a region of condominiums rather economic, and Antarctica, a protected area.
- (18) A striking example of this is even Romania, where wages have increased, for example, 21.4% in Q4 2008 compared with Q4 2007, being exceeded by Latvia (an increase of 30.6%) and Bulgaria (with a increase of 21.8%), according to Eurostat.
- (19) Known as the “Pigou effect” which can be summarized in words: when indexes rise, people often go to the hairdresser because they feel wealthier (formulation belongs economist Jacques Attali).
- (20) The idea bubble “Treasury bills”, which belongs to Warren Buffett, who indicated, in the annual report to shareholders for 2008 Berkshire Hathaway Inc. (published on 28.02.2009),

that the capital market has gone from undervaluation to overvaluation risk and their orientation towards government securities.

- (21) According to Louca, Francisco, "Nikolai Kondratiev and the Early Consensus and Dissensions about History and Statistics", *History of Political Economy*, vol. 31, no. 1, pp. 169-205, 1999.
- (22) See Soros, George, "The New Paradigm for Financial Markets: The Credit Crisis of 2008 and What it means", Public Affairs Publishing, 2008.
- (23) Reflexivity term expresses the interaction between cognitive function and participatory function.
- (24) That concept, the impossibility of holding the ultimate truth, underlies the theory of "open society".
- (25) A similar approach was implemented during the Savings & Loans crisis in the US (1980-1999) when a total of 747 financial institutions were put into bankruptcy. Public cost of the procedure was about 124 billion dollars.
- (26) And political reluctance to allow sovereign funds acquired large positions in companies.
- (27) The decision was made public by French President Nicolas Sarkozy, 23.10.2008.
- (28) Press release of the Security and Exchange Commission dated 19.09.2008.
- (29) Institute of International Finance, Final Report of the IIF Committee on Market Best Practices: Principles of Conduct and Best Practice Recommendations, 2008.
- (30) Financial Stability Forum, "Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience: follow-up on Implementation", 2008, www.fsforum.org.
- (31) This policy is to condemn as the applicants' creditworthiness was questionable from the beginning. The reasoning that prevailed can be summarized thus: it is true that the applicant is insolvent, but as housing prices rise, virtually the money the bank gives with loan will be used to purchase a property that will be worth more than ever; competition for market share led to the continuing undervaluation of risk and a general impression that prices will increase further.
- (32) And beyond: absorbed also important intellectual skills.
- (33) It's Tupi deposit, located 155 miles off the coast of Brazil, with an estimated capacity of 5-8 billion barrels.
- (34) The Royal fourth function, namely to ensure economic sovereignty and the issue of currency, is sometimes challenged.

References

- Albert, M. (1991). *Capitalisme contre capitalisme*, Editions du Seuil, Paris
- Allais, M. (1999). *La Crise mondiale d'aujourd'hui*, Editions Clément Juglar
- Chari, V., Kehoe, P., „Financial crises as herds: overturning the critiques”, *Journal of Economic Theory*, vol. 119, 2004, pp. 128-150
- Juglar, C. (1862). *Des Crises commerciales et leur retour periodique en France, en Angleterre, et aux Etats-Unis*, Paris: Guillaumin
- Kondratiev, N.D. (1925). *The Major Economic Cycles* (în limba rusă), lucrare tradusă și publicată de Richardson & Snyder, *The Long Wave Cycle*, New York, 1984
- Lynch, D.J., „Soros sees 'reflexivity' theory of economics as life's work”, *ABS News USA Today*, Mai 2008

- Louça, Fr., „Nikolai Kondratiev and the Early Consensus and Dissensions about History and Statistics”, *History of Political Economy*, vol. 31, no. 1, 1999, pp. 169-205
- Minsky, H.P., „The Modeling of Financial Instability: An introduction”, *Modeling and Simulation*, 1974, *Proceedings of the Fifth Annual Pittsburgh Conference*
- Schumpeter, J. (1961). *The theory of economic development: an inquiry into profits, capital, credit, interest, and the business cycle*, Redvers Opie, New York
- Smith, A. (1776). *Wealth of Nations*, <http://18th.eserver.org/wealth-of-nations.txt>
- Soros, G. (1988). *The alchemy of finance. Reading the mind of the market*, Editura Simon & Schuster
- Soros, G. (2002). *Despre globalizare*, Editura Polirom, Iași
- Soros, G. (2008). *The new paradigm for financial markets: the credit crisis of 2008 and what it means*, Editura PublicAffairs
- Thal Larsen, P., Croft, Jane, “RBS reveals record loss”, *Financial Times*, Ianuarie 2009
- Worsley, P. (1967). *The third world (The Nature of human society series)*, Weidenfeld & Nicolson, ediția a doua
- Financial Stability Forum*, „Report of the financial stability forum on enhancing market and institutional resilience: follow-up on implementation”, 2008, www.fsforum.org.
- Institute of International Finance*, “Final Report of the IIF Committee on Market Best Practices: Principles of Conduct and Best Practice Recommendations”, 2008, www.iif.com.

Contributions of Agriculture to Economic Fluctuations in Romania*

Anca DACHIN

Bucharest Academy of Economic Studies
ancadachin@yahoo.com

Abstract. *Globalization and European integration could be advantages for the development of agriculture in Romania, which still holds a high relative position in the economy and has structures of business organization and employment that do not match the European model. Based on the empirical analysis of available data, the paper presents changes of the Romanian agriculture in the last two decades and their influence on the whole economy, by pointing out three important fields of macroeconomic fluctuations: gross domestic product, prices and employment. The extended size of the subsistence component in the agricultural sector keeps the dependence of production variations on the natural conditions, strongly influenced by climate changes, while inducing significant variations in the GDP, but is also a solution to soften the social effects of the economic crisis.*

Keywords: agriculture; economic fluctuations; price volatility; overemployment.

JEL Code: Q11.

REL Codes: 3B, 8H, 15B.

* Ideas in this article were presented at the Symposium „The global crisis and reconstruction of economics?“, 5-6 November 2010, Faculty of Economics, Bucharest Academy of Economic Studies.

1. Introduction

The explanation of causes of business cycles in the context of long term changes determined by globalization and processes of economic integration need the identification of new sources of instability, which accompany the old ones already discussed in the specific literature. On one hand, the development of the knowledge economy allows the endogenous economic growth and creates new opportunities for individuals to enter the economic circuit dominated by the market, but, on other hand, there are voices which foresee the return to self-consumption in some economic sectors in order to have self-protection against food risk and risk of dependence on the distribution systems (Toffler, 2006, pp.151-172).

Agriculture was included among the industries in developed EU countries after it benefited from a sustained public support and reached a high level of competitiveness and stability. However, there is concern about the variation of agricultural production caused by climate changes and about the price volatility under the pressure of the search for alternative energy resources (Von Braun, 2008) and of the speculative drivers (Zawojka, 2010). Volatility is a management challenge, since food chain actors must adapt to changing prices and quantities (Von Davier, 2010). Another concern within the European Union is the synchronization of business cycles of the Member States, which is a necessary condition for an efficient application of common policies, but asymmetric development of sectoral business among countries especially in agriculture reduces the synchronization degree (Da-Rocha, 2006).

The paper presents changes of the Romanian agriculture in the last two decades and their influence on the whole economy, by pointing out three important fields of macroeconomic fluctuations: gross domestic product, prices and employment. The research method consists of an empirical analysis of available data.

2. Agriculture and the changes of GDP

During the transition to the market economy the agricultural sector had a high share in the Romanian economy. After a decade of transition (1990-2000) the contribution of agriculture to the total gross value added (GVA) of the economy diminished from 23% in 1990 to 12.1% in 2000. In the context of an important development of the services and the recovery of the industrial production, which represented structural changes with influence on the sources of economic growth, the contribution of agriculture to GDP decreased constantly. During the period of sustained economic growth (2000-2008) the

Romanian agriculture reached the maximum share 14% of the total GVA in 2004, which was an exceptionally good agricultural year, but the trend was the reduction of this share under 10% (Table 1).

In the period 2000-2009 the employment in agriculture in Romania decreased by 41.1%, while other EU countries with a high share of agriculture in GDP experienced a similar trend (Table 1). This massive reduction of employment in agriculture in a rather short time points to initially high level of overemployment. Moreover, the reduction of labor input was accompanied by the reduction of the utilized agricultural area. Thus the productivity in agriculture had not continuous increase as it was expected, but mainly annual fluctuations determined by the variation of the agricultural production, in strong connection to the weather instability.

Table 1

The position of agriculture in selected EU countries

- % -

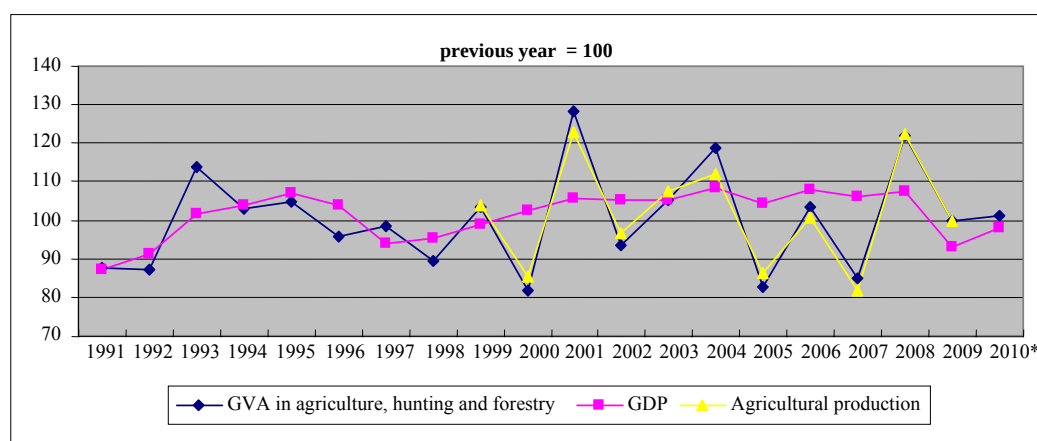
Countries	Share of agriculture (including hunting and fishery) in total GVA for all branches		Share of agricultural employment in total employment*	Changes of employment in agriculture	GVA in agriculture per AWU* (EU-27 = 100%)	
	2000	2009			2000	2009
EU-27	2.4	1.6	5.0	-24.9	100	100
Share of agriculture in total GVA > 3%						
Romania	12.1	7.0	23.4	-41.1	25.2	43.2
Bulgaria	13.6	5.6	10.7	-48.1	51.9	59.4
Slovakia	4.5	3.9	3.8	-42.5	109.9	256.1
Poland	5.0	3.6	14.0	-11.3	47.3	51.6
Lithuania	6.3	3.4	10.4	-21.1	60.3	55.5
Latvia	4.6	3.3	9.4	-38.2	35.1	53.5
Hungary	5.4	3.3	11.0	-34.8	56.5	60.6
Greece	6.6	3.2	12.0	-2.6	132.8	79.4
Share of agriculture in total GVA < 1%						
Ireland	3.2	1.0	7.6	-3.9	132.8	52.9
Germany	1.3	0.8	1.3	-21.7	235.1	194.2
Belgium	1.4	0.7	1.4	-14.8	307.6	178.7
United Kingdom	1.0	0.7	1.0	-13.2	266.4	244.5

* own estimations based on Eurostat data regarding AWU (annual work unit, which is the equivalent of a full time worker engaged in agricultural activities over an entire year).

Source: Eurostat Newsrelease 66/ May 2010 and Eurostat database.

The productivity in agriculture, calculated as the gross value added (GVA) per annual work unit (AWU), is much lower than the EU-27 average (Table 1). But the annual variation of the agricultural production may generate changes of position in the EU hierarchy from one year to the other. For example, in 2000 the agricultural production in Romania decreased while the productivity represented only 25.2% of the E-27 average. In 2009, which was a better year, the productivity was 43.2% of the EU-27 average. These kind of oscillation occurs also for other countries (Slovakia, Greece). However the basic problem for Romania is that its position within the EU shows the productivity under 50% from the EU-27 average even in the best agricultural years.

According to studies written after 2000 (Dobrescu, 2005, p. 280), the competitiveness of the Romanian economy on the supply side was influenced by four essential factors: the presence of an important sector of companies chronically inefficient; the use under potential or the complete exit from the economic circuit of many production capacities; the low capitalization of a large part of viable segments of the economy; the high taxation level. These factors were also present in the agricultural sector and they caused the low efficiency level of production. In addition, the weather variation after the year 2000 determined the fluctuation of the agricultural production due to the low level of modernization in this sector (i.e. lack of irrigation systems or insufficient systems against flooding). Implicitly there was a stronger variation of the GVA in agriculture compared to the GDP (Figure 1). This situation has an impact on the real GDP growth (Figure 2).

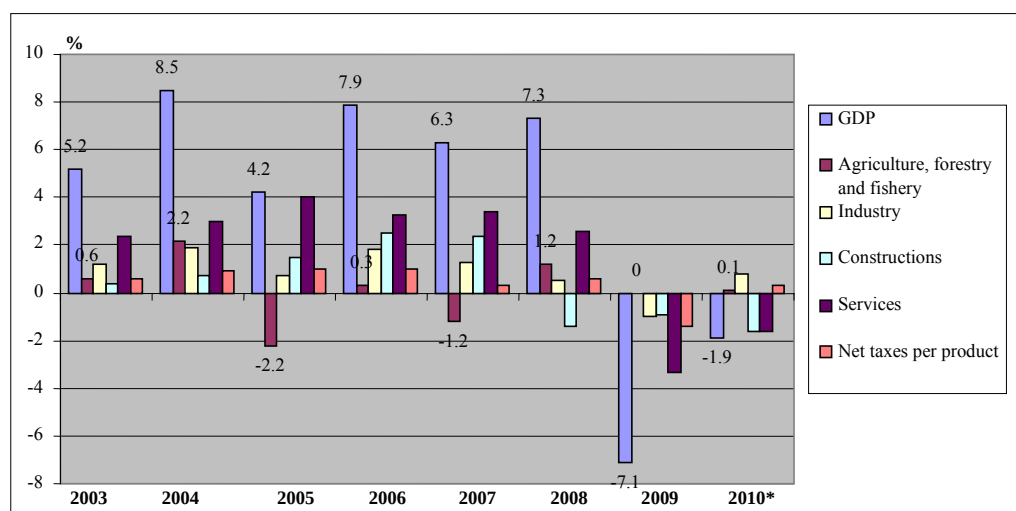


*preliminary autumn prognosis of the Romanian National Commission for Prognosis, 6 Sept. 2010.

Source: Romanian Statistical Yearbook, time series and other data from the National Institute of Statistics (NIS).

Figure 1. *Indices of GDP and of agricultural gross value added (including hunting and forestry and volume indices of agricultural production in the period 1991-2010*

Even if the continuous reduction of the share of agriculture in the GDP should diminish the contribution of agricultural supply shocks to the GDP fluctuations, this contribution still remains high. Thus, in unfavorable agricultural years, i.e. 2005 and 2007 (Figure 2), the negative contribution is visible, even during sustained economic growth. This makes the GDP prognosis difficult, as well as the measurement of the impact of the agricultural policy.



*preliminary autumn prognosis of the Romanian National Commission for Prognosis, 6 Sept. 2010.

** in 2010 data about agriculture include also forestry.

Source: Data from the National Institute of Statistics.

Figure 2. Contribution of main activities to the real GDP changes in Romania

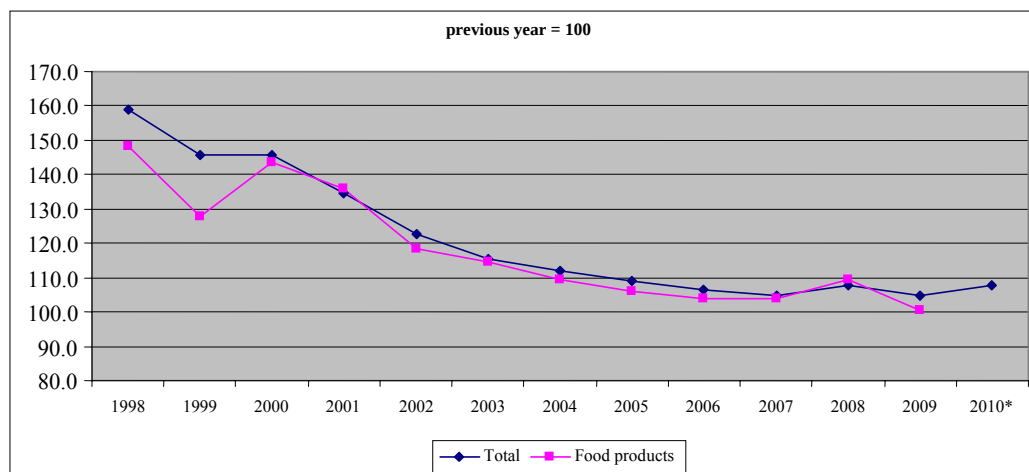
3. Impact of the agricultural price changes on inflation

The analysis of the consumer price index (CPI) indicates that in Romania there is still inflation, even after the accession to the EU, with disinflation trend during 2001-2007.

In the case of price index for food products, the growth rate decreased in the period 2004-2006. However it increased in 2007-2008, mainly because of the effects of bad weather conditions (drought and floods), but also due to the increase of prices for imported food products as a result of strong depreciation of the RON against the main currencies, as well as to the low competition environment on the internal market. From May to September 2009 the growth rate of prices for food products decreased every month more than the CPI and contributed in this way to the decrease of inflation (Figure 3).

The price indices of food products depend directly on changes in food demand, supply of food industry and net food export. In the last years there was a gap between the average growth rates of the food industry production and the agricultural production. Thus we can see a partial decoupling of the food industry production from the internal supply of raw materials. This resulted in different price changes for food products compared to agricultural products.

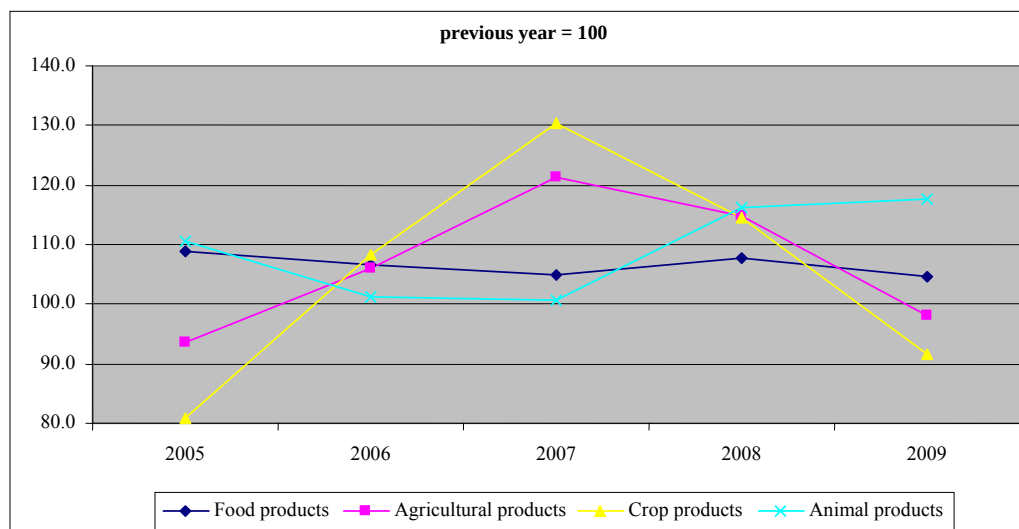
The pressure of competition in the retail sector hindered the increase of consumer price indices. Figure 4 shows the stronger changes of prices for agricultural products compared to changes of final consumer prices. The increase of prices for crop products was higher than for animal products, while in the case of crop products the amplitude of price oscillation was larger and the market more instable. Actually the agro-food chain is damping the oscillation of prices for agricultural products both in the case of increase and decrease.



*preliminary autumn prognosis of the Romanian National Commission for Prognosis, 6 Sept. 2010.

Source: Romanian Statistical Yearbook, time series and other data from the National Institute of Statistics (NIS).

Figure 3. *Consumer price indices in Romania*



Source: Data from from the National Institute of Statistics.

Figure 4. Price indices of food products and agricultural products in Romania

Within the EU-27 Romania registered the highest price increase of agricultural products in nominal terms in the period 2000-2008. Large increases in the same period had other countries too (Latvia – 86%, Estonia – 63.5%), but they were overtaken by Romania with an increase of +213%. This does not necessarily mean that the absolute agricultural prices are higher in Romania compared to other EU countries, but the change rate was higher.

However we notice that prices of agricultural products in Romania have decreased in real terms (deflated prices) in 2004 and 2005 under the level of year 2000, in accordance with the European decrease trend in the same period.

The intense increase of prices for agricultural products in nominal terms after the year 2000 is mainly the result of late liberalization of the internal agricultural markets, but also to higher inflation rates in Romania compared to the euro zone. In addition, the increase of agricultural prices is due to the higher internal and international demand, in connection to the economic growth and increased household income, as well as to the non-food use of agricultural products (i.e. for biofuel).

The economic crisis and its effects on the household income had only little impact on food demand in Romania in 2009. The purchased food quantities decreased in 2009 compared to 2008, but only for certain food products (estimates based on NIS data from the Household Budget Survey):

- bread and similar products (3.6%), which had a decreasing trend in the last years, specific to inferior goods, both for purchased and consumed quantities;
- meat and meat products (1.7%), while the consumed quantities decreased only by 0.6%;
- potatoes (1.2%), while the consumed quantities increase by 2.8%;
- vegetables and canned vegetable (25.1%), while the consumption decreased less (8.4%); this group of products has the most significant decrease of demand on the market, but also of the total consumption;
- sugar (4.2%);
- chocolate and bonbons (2.9%);
- mineral water and non-alcoholic beverages (0.2%);
- total alcoholic beverages (6.2%), while the consumption decreased by only 0.5%.

These quantity decreases do not distinguish the structural changes of demand by types of products within every food category and do not reflect the new orientation of consumers toward lower quality products.

The general level of household income imposes a limit for price increases for basic food and the price adjustments for final products operate under the pressure of the market competition. In addition, the large retailers have most likely a price margin reserved for the adjustment to the variation of the agricultural raw material prices.

The lower income level in Romania is correlated with the lower level of food prices. Even if the food prices increased during the last decades, data calculated at the purchasing power parity show that in Romania the price level reached 42.5% of the EU-27 average in 2000 and 61.5% in 2007 (Zahiu, 2010, pp. 41-42). The largest price gap is in the case of vegetables and fruit, where the market supply from the internal production is the lowest compared to other crops. The crisis restored in 2009 the self-consumption of vegetables and canned vegetable to 50% of the total consumption, compared to 42.5% in 2004 and about 40% in 2008.

3. Employment in agriculture

The agricultural labor force in Romania is employed in a large number of holdings. At the end of 2007 the total number of agricultural holdings was 3.93 million compared to 4.26 million in 2005 and 4.48 million in 2002. The Romanian agriculture is not homogenous from the view point of the holding structures.

The sector of small subsistence households of the peasants proved to be very resistant and survived after 1990 based on the structure of the old rural households. The land reform that started in 1991 and the absence of an efficient structural policy resulted in the process of excessive parcelling of land which has extended the subsistence agriculture over the limits acceptable from economic point of view. The small holdings were disconnected from the market and increased the self-consumption in the rural areas. In 2007 the individual households under two hectares still covered 64.5% of the agricultural area in use.

At present the large commercial holdings play an important role on the internal market and also for the exports. In 2007 the holdings over 50 hectares used about 0.37% of the utilized agricultural area. Such agricultural companies could reach good results in the production of cereals and oilseeds, viticulture, pig breeding, poultry breeding etc. The adjustment of these holdings to the market requirements has been done with difficulties.

The numerous individual holdings produce mainly for self-consumption and are practically excluded from the market and do not meet the requirements of the Community acquis. They were not attracted in the economic circuit by means of cooperation and on a legal base in order to become viable.

The segment of market oriented and viable agricultural family holdings of economic size is still underdeveloped. The consolidation of this sector is important in the context of the world economic and financial instability and climate change because, on one hand, they provide part of the food for rural families, and, on the other hand, they are able to supply the market with a diversified production.

Even if in the period 2000-2009 the employment in agriculture decreased, measured in annual work units (AWU), this equivalent in full time units does not provide a complete measure of the reality regarding the use of labor resources in agriculture. The analysis of the number of persons working as regular labor force in holdings under one European size unit (1 ESU - the measure unit for the economic dimension of the farm) shows the very high number of persons working in these holdings (Table 2).

Table 2

Farm labour force employed in holdings with less than 1 ESU*

	Annual work units (AWU) in holdings < 1 ESU (number)		Annual work units (AWU) in holdings < 1 ESU (% in total AWU)		Regular labor force in holdings < 1 ESU (number of persons)		Regular labor force in holdings < 1 ESU (% in total farm labor force)	
	2003	2007	2003	2007	2003	2007	2003	2007
Romania	1 262 050	1 239 730	46.75	56.75	5 829 640	4 535 420	65.6	70.1
Bulgaria	480 260	269 680	60.67	54.94	940 050	644 160	69.6	67.8
Slovakia	38 090	27 750	32.11	30.40	145 920	123 910	59.1	58.4
Poland	508 200	524 710	23.20	23.18	1 872 640	2 211 900	43.5	43.9
Lithuania	101 410	68 910	45.65	38.25	322 550	261 620	59.6	54.4
Latvia	49 950	34 840	35.46	33.25	124 090	105 630	49.0	48.5
Hungary	271 010	194 670	51.54	48.25	1 041 990	885 990	70.7	70.3
Greece	30 080	20 720	4.90	3.64	245 110	207 340	16.3	13.7

*1 ESU is a standard gross margin (SGM) of 1,200 euro.

Source: Agricultural Statistics main indicators 2008-2009, Eurostat.

In Romania, in 2007, about 1.24 million AWU of the holdings under the economic dimension (<1 ESU) represented 56.7% in total AWU in agriculture. The number of persons who worked in households < 1 ESU was 4.53 million and represented 70% in total regular farm labor force, regardless the work time per year. The fact that almost a quarter of the total population of the country worked regularly in households under the economic size gives the picture about the subsistence resources of these persons and their families, including the extended families living in urban areas.

A similar situation is also specific to other new EU member countries (Table 2) with important agricultural resources and a relative low efficiency of the agricultural sector (Bulgaria, Hungary and Poland).

In the context of the crisis that became visible in Romania in 2009, the trend of diminishing employment in agriculture was interrupted. Again the agricultural sector plays the role of employment buffer, as it happened in the '90. According to the data from the National Institute for Statistics, in the first three quarters of 2010, the number of employed in the economy continued to decrease, while the unemployment rate also had a slight tendency to decrease. In return, the employment rate has a slight increase especially in three development regions (South-West Oltenia, South Muntenia and North-East), where the size of the agricultural sector is large, and in Bucharest, where the service sector is absorbing the labour force.

The reduction of employment in agriculture in the period 2000-2008 and then its increase due to more seasonally work, as a reaction to the crisis, had no notable impact on the agricultural production. This weak correlation between input and output and the volatility of both variables were observed also in other countries with high share of employment in agriculture (Da-Rocha, 2006).

4. Conclusions

The main findings of the paper:

- The fluctuations of the agricultural production in Romania still induce important variations of the GDP, even if the share of agriculture in GDP had a continuous decrease in the last decade;
- The volatility of agricultural prices is high, but the agro-food chain is damping the price variation of the agricultural raw materials, both in the case of increase and decrease;
- The agricultural activity dominated in number by individual holdings with less than two hectares (64.5% of the agricultural area in use) plays the role of employment buffer in the context of crisis, by having an counter-cyclical action.

The Romanian agriculture did not yet approach the European agricultural model and the large part of it is not market oriented and did not reach the expected efficiency after the accession to the European Union. A higher and stable productivity would diminish the economic fluctuations. The long run trend of the return to self-consumption, as it is foreseen by A.Toffler, is the inverse projection of what we expect to be the result of modernization in rural areas. However, if we reconsider the meaning of modernization in agriculture under the pressure of changes in the global world and the new conception about healthy life, Romania could find a way to use positively its natural endowments and the present consumption model in rural areas.

References

- Afonso, A., Furceri, D., 2007, „Sectoral Business Cycle Synchronization in the European Union”, www.iseg.utl.pt/departamentos/economia/wp/wp022007deuece.pdf
- Da-Rocha, J.M., Restuccia, D., 2006, „The role of agriculture in aggregate business cycles”, *Review of Economic Dynamics*, vol. 9, issue 3, 2006, pp. 455-482
- Dobrescu, E., Albu, L. (2005). *Dezvoltarea durabilă în România. Modele și scenarii pe termen mediu și lung*, Editura Expert, București

- Toffler, A., Toffler, H. (2006). *The Revolutionary Wealth*, Ed. Currency/ Doubleday, New York
- Von Braun, J., 2008, „Rising food prices: what should be done”, *IFPRI Policy Brief*
<http://www.ifpri.org/pubs/bp/bp001.pdf>
- Von Davier, Z., Heyder, M., Theuvsen, L., „Media Analysis on Volatile Markets’ Dynamics and Adaptive Behavior for the Agri-Food System”, *International Journal on Food System Dynamics*, vol. 1, issue 3/2010, pp. 212-223, www.fooddynamics.org
- Zahiu, L., Toma, E., Dachin, A., Alexandri, C. (2010). *Agricultura în economia României – între așteptări și realități*, Editura Ceres, București
- Zawojksa, Aldona, 2010, „Speculative drivers of agricultural price volatility and food insecurity”, *The 119th Seminar of EAAE “Sustainability in the Food Sector: Rethinking the Relationship between the Agro-Food System and the Natural, Social, Economic and Institutional Environments”*, Capri, Italia, 30 iunie - 2 iulie 2010,
http://www.centroportici.unina.it/EAAE_Capri/papers/Session10/Zawojksa.pdf

Foreign Direct Investments Expansion – Essential Globalization Factor*

Cătălin Emilian HUIDUMAC PETRESCU

Bucharest Academy of Economic Studies
catalinhuidumac@yahoo.com

Radu-Marcel JOIA

„Nicolae Titulescu” University, Bucharest
radu.joia@univnt.ro

Gheorghe HURDUZEU

Bucharest Academy of Economic Studies
geohurduzeu@gmail.com

Liviu Bogdan VLAD

Bucharest Academy of Economic Studies
liviubogdanvlad@biblioteca.ase.ro

Abstract. *We live in a time when the world economy is constantly changing. Foreign direct investments is one of the most dynamic part of the world economy and in a continuous globalization, those international financial flows determining the traders to know their defining elements and to adopt a specific management in the international affairs field.*

We are viewers of an unprecedented expansion of foreign direct investments, essential factor of the globalization development process. The paper analyzes the evolution of FDI so far, along with a brief illustration as the main trends of international financial flows for 2010 and 2011.

In the context of economic globalization, it is absolutely necessary to clear out a study on the various economic activities, especially on the differences between countries. The analysis of these differences is particularly important as it helps improve and optimize the strategies adopted by foreign transnational companies.

* Ideas in this article were presented at the Symposium „The global crisis and reconstruction of economics?”, 5-6 November 2010, Faculty of Economics, Bucharest Academy of Economic Studies.

In the past 15 years, one observes that most companies in emerging countries, characterized by a great expansion, have adopted in the first phase of their existence, corporate strategies that gave them the opportunity to become global companies. According to surveys, after reaching the first goal, becoming a multinational or a transnational company, they have developed new business models beyond the classical principles and strategies. It is anticipated that in the coming decades, the strategies of emerging companies will be influenced by functional specialization, which, according to experts, influence the process of globalization.

The analysis of strategies adopted by companies in emerging countries is absolutely necessary because the results cannot be overlooked. For example, until 2004, only five Asian companies were part of the top 100 transnational companies. The study was carried out by UNCTAD and the identification criterion was the size of foreign assets. In 2006, 14% of world total FDI came from emerging countries.

In the global economic crisis, foreign investment flow analysis is a dynamic element that can help the economy of a country. This is not the first time when the world economy is facing recession, but it happens after many years, namely after the Great Depression that began in 1929 and after Breton Woods System Fall in 1971. In addition, we can say that it is for the first time after a long period when the crisis is located at the level of developed countries, not only in emerging economies.

The FDI expansion is indeed a fabulous one, aspects of their development periods of time are presented in detail in this paper. In the last decades of the twentieth century, international investment flows have risen to unprecedented growth. The climax was reached in 2000, next period representing a regression of foreign investments. From 2003 to 2007, it was a period marked by a continuous expansion and increase flows until 2008, when the global economical crisis has had an impact on the entire world economy, including foreign direct investments.

Undoubtedly, the world economic crisis had a negative effect on FDI. The negative impact mostly consisted of two elements, namely: reducing access to financial resources, which affected the ability of firms to invest, and the tendency of companies to invest because of gloomy prospects for the economy, markets and risks.

Keywords: FDI; cross-border acquisitions and mergers; transnational companies; internationalization; trans-nationalization of the production process.

JEL Code: F21.

REL Code: 10F.

Introduction

In the last period of time, the main feature of globalization which manifested visible was the world capital trend of moving from the stage of internationalization to the stage of trans-nationalization. This transition has been favored as a part of world trade, but the decisive factor was the trans-nationalization of production, which inevitably led to the trans-nationalization of capital ownership.

The trans-nationalization of the production process has strengthened the unprecedented increase of direct investment flows that have registered, according to UNCTAD, World Investment Report 2007, a total volume of 2.063 billion dollars.

This phenomenon, described above, was globally generalized, the expansion of FDI representing an important determinant of economic globalization. Such investments have helped the countries from all part of the world, regardless of their status, whether developed countries, developing countries or countries undergoing a transition to a market economy to record strong growth compared to previous years. Year representative to illustrate the expansion of FDI was 2006, when FDI flows rose by 38% over 2005. These flows have had an upward trend in all three categories of countries, being wide differences between countries or regions.

1. The evolution of the FDI flows

When we talk about the foreign direct investment global evolution, because the growth of these flows is an important determinant of economic globalization, we should illustrate their trends in all three type of countries, namely developed countries, developing countries or developing countries that are in a transition towards a market economy.

As mentioned, 2006 was a year when FDI flows have raised significantly compared to previous years, which makes it a reference year. During this period, inflows into developed countries increased by 47%, reaching a turnover of \$ 857 billion, those to developing countries increased by 21% and in the process of transition towards a market economy increased by 68%, record growth rates for this category of countries. Among developed countries, USA managed to regain leadership in attracting FDI, after 2005 when the leadership has been overtaken by Britain and the European Union after an investment rate of 41% that became the most representative region for FDI. As it can be observed during this time in developed countries, FDI are attracted by relatively

high proportions, but two thirds of total FDI flows are held by developing countries.

Developing countries were a major attraction for foreign investors. The proportion of foreign direct investment attracted by this small group of countries show differences according to region and country. Therefore, attempts to illustrate the geographical areas. The most attractive region was represented by South Asia, East and South-East Asia and Oceania, where FDI inflows have registered a rate of \$ 200 billion, which means an increase of 19% over the previous year. From this group of countries most attractive to investors remain China, Hong Kong and Singapore.

Regarding Latin America and countries that have experienced increases in investment, we can mention Brazil, which benefits from an increase of 25% over the previous year, Mexico, which maintains its share of FDI flows in 2006 like in 2005.

Africa, thanks to its oil resources, succeeds to attract investments, especially from transnational companies, the flows being concentrated in West, North and Central Africa, of course, in the areas rich in oil or areas industrialized from this point of view. And with regard to Eastern Europe, Russian Federation is the most significant host country of these investment flows.

We can see that there is global growth in 2006, especially illustrated by the evolution of FDI flows. During this period, numerous transnational mergers and acquisitions took part, part of these flows, stimulated by the existence of significant corporate profits. Which factors would still be contributing to these feeds?

Many economists believe that the dollar depreciation has caused on one hand the US to attract investments, especially in the euro and yen area. According to UNCTAD reports, the 2006 data are not very different from those of the '90s, which indicates that the euro appreciation or dollar depreciation, shall not strictly affect the evolution of FDI flows. In these circumstances, the European transnational companies which have invested in USA and Japan have not been determined by the appreciation of the euro against the dollar or yen. In other words, we observe that in this period the transnational companies, the main actors of these direct investments are not negatively or positively influenced by the currency appreciation or depreciation. It can be said that these companies have reached a certain level of integration, which provides safety, regardless of economic phenomena.

Regarding mergers or foreign acquisitions, we might mention that they have increased worldwide by 23% over the previous year, USA being the leader in the group of developed countries thanks to the mega-acquisitions that have

been done in Canada, followed by European countries, where purchase value decreased from \$ 19 billion in 2005 to 10 billion dollars in 2006.

Group of developing countries and economies in transition was noted in this period mainly due to numerous mergers and acquisitions that have been made mostly in the Asia and Eastern Europe. In this area is specific the economic growth rate, especially that of China, India and Russian Federation.

According to UNCTAD the most important and very significant acquisitions made in the global economy at that time were: in China, “China National Petroleum Corporation” acquired PetroKazakhstan for \$ 4.1 billion in 2005, while Sinopec has bought “Russian-United Kingdom joint venture Udmurtneft” for the amount of \$ 3.5 billion in 2006. Other Russian companies as Gazprom, Rosneft and Lukoil began their expansion in Europe, Gazprom making investments in the energy sector in Germany, and “Russian Aluminium” buying a part of the “Glencore International” (Switzerland) for \$ 2.5 billion and “CTF Holdings” (Alfa Group) purchase “Turkcell Iletisim Hizmetleri”, a Turkish telecommunications company for \$ 1.6 billion.

In the beginning we discussed about the trans-nationalization of production process, which is leading to a transition of the capital from the stage of internationalization to the stage of trans-nationalization, however, the role of this process is above the transition of the capital, because it allows to keep the control on the global economy, the evolving economy, just by increasing the volume of assets held abroad, stock which reached in 2006 \$ 11.999 billion (World Investment Report, 2007).

For host countries, the benefits can be multiple, but most important is the number of persons who are employed in foreign subsidiaries (this number is an indicator that reflects the impact of FDI flows on employment, in 2006, 3% of total force work was employed in the transnational companies). Also, the parent companies' ability to influence trans-border production growth is another indicator that reflects the influence of FDI on the global economy. FDI flows determined the intensification of the relations between the most important origin countries of FDI and the various host countries, which leads to the following conclusions:

- the US relations developed with the host countries such as Canada, Britain and Japan were much more extensive in 2005 than in 1995. In addition, other relationships with host countries in Europe, like Sweden and Switzerland, expanded.
- Japan's relations with the developing countries in Asia have increased, except Hong Kong and Indonesia; Japan also managed to expand its relations with host developed countries like Australia and the USA.

- the relations between the EU countries have intensified, which shows the traditional trend, namely the regional FDI flows between EU countries.

As said above, it seems that the trends of developing countries are FDI flows based on neighborhood politics. For example, the US encourage the growth of FDI flows with Canada, Latin America, to a greater extent than in other European countries. The same goes for Japan.

2007 was a year of steady growth of FDI, even though in its second half the financial crisis began. As a result we can say that globally FDI flows rose by 30% to a rate of \$ 2.063 billion. In addition, reinvested profits accounted for 30% of total FDI. Cross-border acquisitions and mergers again led the overall increase in FDI, their share being \$ 1.637 billion. Even if the financial crisis started in the second half of 2007, this has not influenced the global acquisition such as ABNAMRO Holding NV acquisition by Royal Bank of Scotland, Fortis and Santander or acquisition of Alcan (Canada) by Rio Tinto, England.

All this FDI considerable development over the years has been influenced by favorable policies adopted by UNCTAD member states, a body that monitors and develops a climate conducive to positive development of these flows. There are some countries where legislative changes have negatively influenced FDI by reducing their weight, especially those in Latin America.

Table 1

FDI flows in 2007-2008

\$ billion

Region/Country	FDI flows		
	2007	2008	Growth (%)
Global	2063.4	1868.9	-9.4
Developed countries	1743.4	1536.4	-11.9
Europe	1270.7	990.3	-22.1
USA	313.8	298.6	-4.8
Japan	73.5	127.4	73.2
Developing countries	268.8	274.1	2.0
Africa	5.3	-	-
Latin America	52.1	36.1	-30.7
Asia and Oceania	211.4	239.6	13.4
West Asia	44.8	-	-
South, East and South East Asia	166.5	185.2	11.2
Countries undergoing a transition to a market economy	51.2	58.3	13.9

Source: UNCTAD.

2008 marks the end of a cycle of expansion of foreign direct investment, cycle that began in 2004. Of course, FDI flows during this period showed a reduction of 10% compared 2007. The contraction of production, major layoffs and the investments cut have generated a considerable reduction of the cumulative value of cross-border mergers and acquisitions by 29% to about \$ 1200 billion in 2008.

UNCTAD, as an international institution, has made at the end of 2008 an analysis concerning the trends that the FDI will record from 2009 until 2011. We stood still in this period of time, we make a separate perspective presentation, just to illustrate and identify the current and future flows trend.

2. FDI prospects analysis from 2009 until 2011

2009 was a year of considerable reduction in the FDI flows area, continuing their trend to be like in 2008, according to UNCTAD, World Investment Prospects Survey 2009-2011, June 2009. In 2009 there have been analyzed data from 26 states and we could observe that 21 countries have recorded decreases in investments, countries such as France, Germany and Japan. In 2009, FDI flows fell by 46% over the same period of 2008 in emerging countries and by 57% in developed countries. The results of 2009 show negative effects of FDI flows, their reduction being a drastic one.

According to the statistics obtained from transnational companies, UNCTAD predicts that in the current period, 2009-2011, companies in emerging countries from Asia and the North American companies will continue to invest registering record growth due to stable business environment and favorable policies for foreign investment. In addition, they appear optimistic about its corporate investment in Japan and Europe. Emerging Asian companies want to expand investments in 2011, 57% of Asian companies will adopt internationalization strategy.

As Asian companies, transnational companies in the US and Canada have a very optimistic view on the revival of foreign investments, 71% of all companies wishing to internationalize their business in 2011, considering this process as an opportunity to reduce costs. As you can see, internationalization is seen by North American companies as a way to reduce costs and increase their efficiency.

Japan is not so optimistic, because the US economic crisis has influenced in a negative way FDI flows, 73% of Japanese transnational companies being affected by this economic phenomenon, especially because of the many exports that Japan made in the USA Japanese hope for a moderate recovery of FDI for 2011.

The situation in Europe is quite different because of the economic crisis being felt strongly by European countries. If the vision of companies in the countries of Asia and North America is an optimistic one, European countries are pessimists, especially because it is expected to return to their minor costs of FDI to a minimum after their fall in 2009. However, there are exceptions, such as Germany, where companies, such as Volkswagen AG, wishes to realize ambitious investments.

The most affected sectors were represented by: automotive, chemicals, metal products, machinery and equipment manufacturing sector. On the other end, the telecommunication, services, pharmaceuticals, food products were less affected by financial crisis.

As a conclusion, the prospects made by UNCTAD show that 2009 represented a flare period of the 2008 effects, continuing the negative effects of financial crisis and 2011 will be a revival of FDI flows, generally speaking all the countries have an optimistic view.

Conclusions

Trans-nationalization of production, strengthened on the FDI flows trends, has helped the countries of the world, regardless of their status, developed countries, developing countries or countries undergoing a transition to a market economy to record strong growth previous years. Since 2004, we can say that a cycle of growth began in foreign direct investment, FDI flows reached significant levels in 2006 and 2007, the cycle ended in 2008. During this period all three groups of countries have beneficial results in terms of FDI. Developed countries still dominate the FDI flow statistics, but are closely followed by the developing countries, particularly Asian, which identify themselves as attractive markets for investors.

Also in this period, 2004-2008, there are important cross-border mergers and acquisitions, which in 2007, the year of maximum expansion of FDI, registered a world record levels of \$ 1,699 billion. It may be recalled by the

mega-acquisitions made by USA in Canada, and by China on the Asian continent.

The FDI flows growth cycle is ending in 2008, when financial crisis makes its impact felt, so, according to the statistics made by UNCTAD, it can be seen drastic cuts of investments in all countries, reduction of 10% of flows compared to 2007, but also a reduction in cross-border mergers and acquisitions by approximately 29% over the previous year.

In 2009 the downward trend in FDI worsens, North American and Asian countries are showing a positive attitude, willing to adopt the strategy of internationalization in 2011 in order to minimize costs and increase efficiency. Japan is skeptical, still suffers from massive exports made in the US during the crisis, but with the desire to maintain a moderate level of direct foreign investments for 2011. European countries are pessimistic with regard to FDI.

With regard to the FDI flows future, we can make predictions only after we have access to data recorded for 2010, data that will be available after October 2010, according to UNCTAD.

References

- Badrus, Ghe., Radaceanu, E. (1999). *Globalitate și management*, Editura All Beck
- Bal, Ana (coord.), Dumitrescu, S. ș.a. (2006). *Economie mondială*, Editura ASE, București
- Baldwin R., (2006). *Managing the Noodle Bowl: The Fragility of East Asian Regionalism*
- Baldwin, R., Martin, P. (1999). *Two Waves of Globalisation: Superficial Similarities and Fundamental Differences*, Capitol 1, pp. 3-59, Editura H. Siebert
- Baldwin, R., Ottaviano, G., Martin, P. (2001). *Global Income Divergence, Trade and Industrialization: The Geography of Growth Take-Offs*
- Bari, I. (2001). *Globalizare și probleme globale*, Editura Economică, București
- Băcescu-Cărbunaru, A. (2000). *Macroeconomia relațiilor economice internaționale*, Editura All Beck, București
- Dunning, H.J., (1997). *The New Globalism and Developing Countries*, N.Y.
- Dunning, H.J., Masataka, F., Nevena, Yakova, „Some Macro-data on the Regionalisation / Globalisation Debate: A Comment on the Rugman/Verbeke Analysis”, *Journal of International Business Studies*, 38, no. 1 (January 2007)
- Krugman, P., Venables, A.J., *Globalisation and the Inequality of Nations*, Research Institute of Industrial Economics (IFN) Working Papers, 430, 1995
- Krugman, P. „White Collars Turn Blue”, *Article for centennial issue of the NYT magazine*, 1996

- Mărgulescu, S., Mărgulescu, Elena, „Trecerea de la globalizarea piețelor la globalizarea producției și serviciilor în contextul stării de semiglobalizare”, *The 33-rd Annual Congress of the American Romanian Academy of Arts and Sciences (ARA) Proceedings*, Volume I, Polytechnic International Press, Montreal, Quebec, 2009
- Palmisano, S. (2006). *The Globally Integrated Enterprise*, Foreign Affairs, USA
- Pankaj, G. (2007). *Redefining Global Strategy*, Harward Business School Press, Boston, Massachusetts
- Rujan, O. (1994). *Teorii și modele privind relațiile economice internaționale*, Editura All, București
- UNCTAD, World Investment Report 1997
- UNCTAD, World Investment Report 2002: Transnational Corporations and Export Competitiveness (New York and Geneva, 2002
- UNCTAD, World Investment Report , 2005
- UNCTAD, World Investment Report 2006
- UNCTAD, World Investment Report 2007
- UNCTAD, *Assessing the Impact of the Current Financial and Economic Crisis on Global FDI Flows*, April 2009
- UNCTAD, *World Investment Prospects Survey 2009-2011*, june 2009

Implications of Asymmetric Information in the Real Estate Crisis in US*

Marta Christina SUCIU

Bucharest Academy of Economic Studies
suciuchristina@yahoo.com

Luciana PICIORUȘ

Bucharest Academy of Economic Studies
lusianapiciorus@yahoo.co.uk

Cosmin Ionuț IMBRIȘCĂ

Bucharest Academy of Economic Studies
imbrisca_c@yahoo.com

Abstract. *The economic crisis is now a common reality in most parts of the world, being translated in mass unemployment, collapse of the social system and an impressive number of bankruptcies. The paper focuses on the beginning of the recession in the American real estate sector by analyzing the implications of imperfect information and moral hazard as main factors that contributed to the deterioration of real estate market and also to accentuating the overall poor economic situation. In that context, asymmetric information served the interests of banks and other institutional speculators who made use of it in order to increase their profitability through market manipulation. The central aspect the paper underlines is the international contamination created by disguising toxic real estate actives and spreading them throughout the global economy through transactions with foreign business partners.*

Keywords: asymmetric information; moral hazard; adverse selection; real estate market.

JEL Codes: F21, G21, D82.

REL Codes: 7D, 11C.

* Ideas in this article were presented at the Symposium „The global crisis and reconstruction of economics?”, 5-6 November 2010, Faculty of Economics, Bucharest Academy of Economic Studies.

1. Introduction

One of the essential conditions for a perfect competitive market is the existence of perfect information. All buyers and sellers must be completely informed regarding the characteristics of the goods and services, and about market conditions. The reasoning for this premise is simple: no economic agent will be able to take advantage of another under these circumstances. But market failures exist and they have to be also taken into account.

The most common types of market failures are public goods and externalities⁽¹⁾. Another one is related to imperfect information available to buyers or sellers, leading to inefficiency and costs incurred both by individuals and society as a whole. Some examples are connected to the labour market (when an employer hires an employee, the employer knows less than the employee about his or her desire to work, leading to poor results and lost productivity, as well as additional million of dollars costs), insurance market (unable to dissociate correctly between good and bad insurance risk, insurance firms decide to charge higher rates to all the policyholders, leading low-risk candidates out of the market while only the high risk ones choose to remain) or the used car markets (Waldman, 2004, pp. 553- 554).

This last example is relevant especially in relation to the famous economics article on asymmetric information, „The Market for Lemons: Quality Uncertainty and the Market Mechanism”, written by G. Akerlof in 1970. His Nobel winning argument is linked to the Lemon Game⁽²⁾. Two players, a seller and a buyer of a used car, have to make a decision. The seller who offers the car knows, from the very beginning, whether the car is a good car or a bad car, a „lemon”; on the other hand, the buyer does not know anything about the quality of the used car but the probability distribution of good cars and bad cars. In this case asymmetric information prevents the market from achieving Pareto efficiency.

But the Lemon Game is even more significant as it presents another issue associated to the asymmetric information matter: adverse selection. The concept refers to a situation in which less desirable economic agents, buyers or sellers, are likely to commercially engage as the information is insufficient in order to determine the true quality of the exchanged product. In the Lemons Game, the adverse selection is illustrated by considering again the buyers who cannot determine the level of quality of the desired car. So there are used cars having different qualities and real monetary values, within a certain price range; let us suppose a minimum price of 2,500 USD and 6,000 USD, but they are going to be sold at an identical 5,000 USD. However, some buyers will be acquiring a

lemon with its true value of only 2,500 USD, while the owners of high-quality cars will have no buyers at all as they ask for higher prices.

Of course the adverse selection issue is far more complex and it can be found on other markets, besides the above examples. Nevertheless, the main thing to be considered is how to solve this problem and one effective method is to get more information. In those situations where consumers have insufficient information in order to make the proper decision, the government involves and tries to solve the adverse selection matter by including compulsory disclosure to the uninformed parties. Such cases are found in US, where the Federal Trade Commission is authorised to prevent companies from using false or deceptive forms of advertising, so that low-quality products are less likely to be bought by uninformed buyers. Also a unique disclosure of non-performing loans was done by Japanese Shinkin banks in 1996 and 1997⁽³⁾ as weaker banks in general avoid voluntary disclosing this type of information.

Other possible solutions to this problem, other than the contractual ones which are going to be analyzed along with the moral hazard issue, are those related to legal ways of making the car quality contractible or using private warranties which add concrete substance to promises related to quality of the product. In addition, reputation is applicable as well, especially when the commercial relationship between the parties has a repeatability element included. The last possibility to be considered is related to penalties as social costs, not only economical; Akerlof presented in his 1980 and 1983 articles the interaction between social customs and market (Rasmusen, 2007, pp. 265-266).

2. Moral hazard and the credit institutions

As previously mentioned, the asymmetric information affects resources allocation and Pareto efficiency. Along with the adverse selection issue the moral hazard problem complicates it even more. This concept implies the existence of a contract between the parties, while one of them has the tendency to alter his or her behaviour in ways that are costly to the other party (McCornnel, Brues, 1996, p. 612). It has various applications, such as on insurance market, labour or financial markets.

One special area of interest is represented by the credit institutions. Here the problem is two-folded: there is the contractual relation between the bank and its clients, and the contract between the bank and its employees.

The first aspect is related to the relationship between the institution and its clients in the lending process. Asymmetric evolution of information, due to moral hazard, can determine excess demand for bank loans. The savers will not have available funds for all those who want to borrow at the equilibrium

interest rate. A possible consequence is that a bank will give credit to a person while denying to another one based only on arbitrary criteria. Some authors even suggest that Great Depression (1930) in US was caused by adverse selection in bank loans; due to numerous following bankruptcies of credit institutions the recovery was even more difficult as adverse selection made banks reticent to lending.

Another possibility is that the borrower may choose between different types of investments, with different degrees of risks. If the lender cannot supervise these choices the moral hazard problem emerges. As the borrower is confronted with higher interest loan rates it becomes more interested in investments with higher returns but also with higher risk levels (Stiglitz, Walsh, 1981).

The second part refers to the contractual relationship between bank and its employees. This is best pointed up by the implicit contract model as originally developed by Azariadis (1975), Baily (1974) and Gordon (1974). This type of contracts refer in fact to the way in which risk is shared between firms and workers, and not as some may understand through the term „implicit”, an informal arrangement (Bosworth, Dawkins et al., 1996, pp. 279-280). Its main novelty is that it presents employment contracts as the main instrument for the long-run exchange of labour services. Also, employees are more risk averse than companies, so according to the theory, the organization will absorb foremost of the risk and paid wages will be determined based on the variation in the workers' marginal product (Bosworth, Dawkins et al., 1996, pp. 289-290).

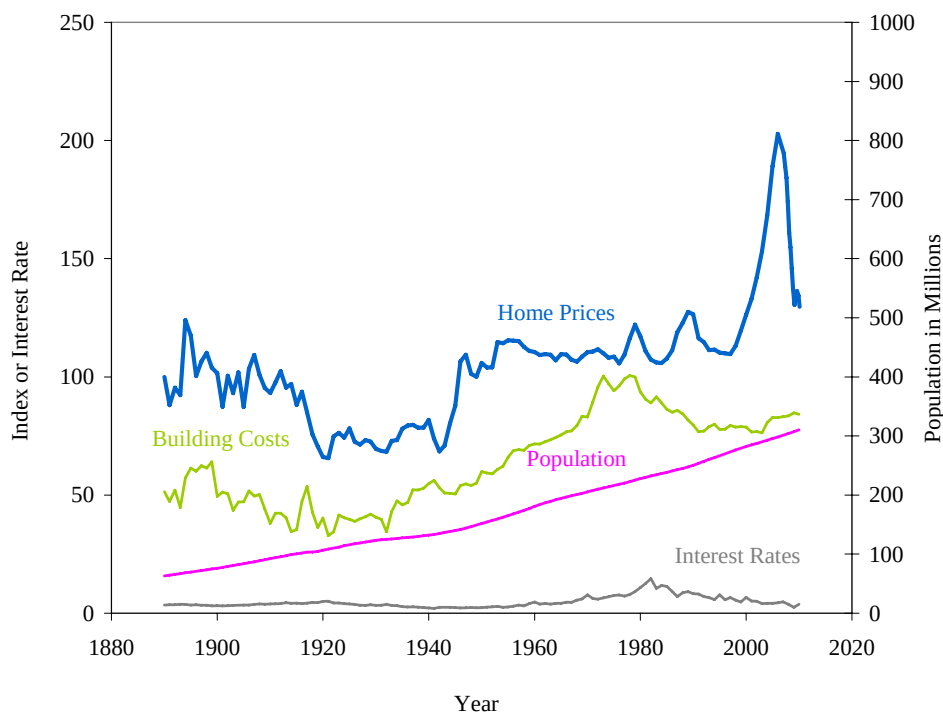
Nevertheless, the literature has evolved since then. Because the implicit contract theory along with asymmetric information can also provide explanations for the unemployment and unemployment compensation, interest focused on the firm and if it is or not reliable when telling the truth. Maybe the most normal thing to consider is that it is not; both in difficult times or during an economic boom a company would use as an argument the economical situation, difficulties encountered, etc. so employees to be paid less. But this is not always the case. If the company can restrain the same level of profit as high as reporting another state of nature this condition becomes additional but not sufficient for a feasible contract (Bosworth, Dawkins et al., 1996, pp. 286-287). Also, asymmetric information affects the parties of an employment contract as each one of them has private information which is unknown to the other one.

Therefore if the previous theory is being used to make predictions it should be taken into account that the informational structure found at the bottom of this model is very sensitive. However, according to econometrics, the premises, both moral hazard as well as principal-agent problem' implications⁽⁴⁾, can be mathematically determined and tested (Stancu, 2001, pp. 90-91).

This results in valuable data both for contract theory and for creating a solid framework in optimal contracts in an uncertain business environment.

3. The role of credit policy in the real estate crisis

The real estate market in the US had not been seen as a worthy investment for most of the last century. The reasons for this were numerous: it required large amounts of money considering the income of the average person, on one hand, and it lacked liquidity and it offered low returns that will not attract the attention of large investors, on the other hand. For these causes large investors and speculators were not interested and, in the absence of a large inflow of money, the prices of houses were relatively stable, taking into account large social changes determined by events such as The Great Depression and other economic downturns. In other words, buying a house was the same as buying a home.



Source: Robert J. Shiller, *Irrational Exuberance*, 2nd Edition, Princeton University Press, 2005, 2009, Broadway Books 2006, also *Subprime Solution*, 2008, as updated by author.

Figure 1

However, all this changed in the late 1990 when, following a downturn in the market, prices soared. They kept rising for the next decade until it all came crashing down. The grounds for this surprisingly transformation will be analyzed next.

a) Political interferences

The first piece of this complex puzzle is the creation the Federal National Mortgage Association, informally known as Fannie Mae, in 1938. Its purpose was to create a strong secondary mortgage market by buying federally insured mortgages from credit institutions thereby freeing their money so that they can issue more loans.

This practice continued for the following decades until the company switched from public to private ownership in 1968, when it was converted to a shareholder-owned corporation. What actually happened was that the institution itself was divided into two companies, one backed by the government, Government National Mortgage Association (GNMA)⁽⁵⁾, that still had the restraint of buying federally insured mortgages, and the other part, Fannie Mae⁽⁶⁾, that operated as any company on market without the previously mentioned restraint. At the same time the Federal Home Loan Mortgage Corporation was founded as a government sponsored enterprise with the same charter as Fannie Mae.

Fannie Mae and Freddie Mac, while officially functioning as private entities, were still tied to the public sector due to their charters and so were subject to political influence. This is made obvious by the *Federal Housing and Enterprises Act* of 1992 that required the two companies to set aside funds for affordable housing. Through subsequent revisions of the *Community Reinvestment Act* (1992)⁽⁷⁾ funds were redirected from the original purpose of the company towards buying CRA mortgage loans, therefore dedicating their efforts to medium and low income families that would not normally qualify for a loan, in other words they brought government backing to the sub-prime market.

In 1999, as a result of increased political pressure, Fannie Mae reduced the requirements to qualify for mortgage loan with the stated purpose of having half of Fannie Mae's and Freddie Mac's portfolio made up of low and medium income family loans. In November 1997, for the first time ever, Fannie Mae helped a private lender repackage their CRA loans as bonds to be sold on the market, all of them carrying a Fannie Mae guarantee of payment. This was a consequence of strong political pressure; while home ownership reached a 70% in 1990, American politicians considered the "ownership society" as the foundation of the economic policy, therefore it was vital for the rest of 30% to

be provided with houses. A two steps process was enforced; firstly, people were allowed to acquire houses without money down but only borrowing the equity from the house, secondly, financial innovative products which allow banking companies to transfer assets off their balance sheet (Sharma, 2009, pp. 177-178).

While these decisions might have been made with a noble purpose they did little to actually help anyone but the politicians get re-elected by boosting their public image. What it did was to make sure that these two companies took on more risk thus lowering the risk of first market lenders which in turn lowered rates pushing the prices up and promoting predatory lending.

b) Predatory practices

A common stratagem which involves taking advantage of the lack of knowledge of the borrower, due to asymmetrical information and the moral hazard created, by forcing him to accept a higher interest than normal, by failing to inform him of his rights (asymmetric information takes effect) or forcing him into a situation where he renounces.

By backing sub-prime mortgages with the government's image, and money as a result of the subsequent bailout, politicians created a situation that is excellent for the development of predatory lending. This system, known as "origination, securitization and servicing model", started with a credit agency, a mortgage broker or some other similar institution that will take advantage of its client, the institution then receives some form of backing from a bank, be it in the form of: a letter of credit, working capital loans or loan guarantees (Sharma, 2009, pp. 177-178). In turn, the banking organizations, such as Bears Sterns, Lehman Brothers, Merrill Lynch, or Goldman Sachs, with the help of Fannie Mae and Freddie Mac securitized these loans, more exactly bundling of loans into packages which were then sold to outside investors. Thereby they were ensuring also even more funding for the original brokers.

While, most likely, there were numerous mortgage brokers that observed normal business practices, the link between CRA loans and predatory practices was without doubt and it has been proven in this situation but also by the historic precedent of the saving and loan boom and subsequent crisis of the 1980s (Engel, McCoy, 2002).

A prime example for this type of business practice is the case of Ameriquest. It started out as a bank in 1979 and was transformed into a pure mortgage lender in 1994. The company's history of predatory practices starts out in 1996 when, in order to settle a lawsuit accusing it of predatory lending practices against older, female and minorities, it agreed to create a \$3 million fund to train its employees. The company came under scrutiny again when evidence surfaced which showed that it was common practice to misinform or

lie to the borrower or to forge signatures and paperwork just so that the loan could be approved (Hudson, Reckard, 2005, p. 5).

Taken this into account, there can be little doubt that starting with the political decisions at the top and continuing with every key decision maker on the line all the way to the first credit institution everyone can be accused of moral hazard because they ignored all the obvious signs and instead focused on their own gains.

c) Irrational investment

The picture would not be complete without looking at the evolution of the housing market as an investment. At the beginning it was said that it lacked the necessary elements for an investment; however, this changed starting from 1997, when two important events took place.

Firstly, it became easier to finance a sub-prime loan as a result of changes in regulations which allowed Fannie Mae and Freddie Mac to buy CRA loans. This in turn spread the risk, lowered the rates and brought attention to the market and with this it became even simpler to enter the market at a lower income level. Along with the increased activity of the market prices were pushed up even further, thus providing a decent return on the investment.

Secondly, as a result of the introduction of the Tax Payer Relief Act of 1997, more lenient rules were put into place; any gains from selling real estate that are under \$500,000 for couples and \$250,000 for singles would be tax exempt. Because of these exemptions it became viable to invest in a second home or in other types of property.

As a result prices for houses started to rise. At the same time the stock market was hit by the fall of the dotcoms in 2000. Similar to a self fulfilling prophecy, as they kept rising, more people lost interest in shares and became interested in real estate. In 2001 the Federal Funds rate was lowered from 6.5% to 1.75% in the course of a single year; suddenly it became affordable for more people to buy a second home, move into a new one or to refinance their old one⁽⁸⁾. The effect was that the number of people active on the market grew even more both because of the new entrants and individuals who already had a home were looking for a new one. As a consequence, aggregated demand increased and pushed prices even further, thus sparking a vicious circle.

But this is just half of the image, the other half showing Fannie Mae and Freddie Mac as the largest companies on the US mortgage market, together having over 60%, packaging them as bonds and selling them on the international market with AAA ratings. These were then used as underlying assets in the creation of high volatility structured products and derivatives such as CDO, ABS and MBS which were then placed in mutual funds, pension

funds, hedge funds as low risk assets with good returns thus creating what can only be described as a “miraculous product” with high return and low risk.

But what about the credit policy and the other banking institutions, can they be blamed for the subprime crisis in the real estate sector? When analyzing the subprime crisis the credit policy may be considered as a starting point together with the central bank of the country that is responsible for it. In the case of United States, the Federal Reserve, founded in 1913 by the Congress, has increasingly expanded over time its attribution in the banking sector.

Besides conducting the monetary policy and so influencing the credit conditions, it deals with supervising and regulating banking institutions to ensure the safety and soundness of the nation’s banking and financial system and to protect the credit rights of consumers⁽⁹⁾ (Board of Governors of the Federal Reserve System, 2005, pp. 1-2). Still, some responsibilities are carried by a network of twelve Federal Reserve Banks and their Branches (twenty five as of 2004), including supervising and regulating member banks and bank holding companies, and serving as banker for the US Treasury; they are supervised by the board of Governors, as well as by the Federal Open Market Committee (FOMC), which is composed of the seven members of the Board of Governors and five of the twelve Reserve Bank presidents⁽¹⁰⁾.

The commercial banks are divided according to which governmental body charters them and whether or not they are members of the Federal Reserve System. Those chartered by the federal government (through the Office of the Comptroller of the Currency in the Department of the Treasury) are national banks; by law, they are members of the Federal Reserve System. Banks chartered by the states are divided into those that are members of the Federal Reserve System (state member banks) and those that are not (state nonmember banks) (Board of Governors of the Federal Reserve System, 2005, pp. 11-12)⁽¹¹⁾.

However, member banks must subscribe to stock in their regional Federal Reserve Bank in an amount equal to 6 percent of their capital and surplus, half of which must be paid in while the other half is subject to call by the Board of Governors. This is binding obligation, and it may not be sold or pledged as collateral for loans. The banks receive a 6% dividend annually, legally specified⁽¹²⁾.

The supervising activity of the domestic banking institutions is determined according to the type of institution and the governmental body which authorized its activity. Therefore, the Federal Reserve shares supervisory and regulatory responsibilities with the Office of the Comptroller of the Currency (OCC), the Federal Deposit Insurance Corporation (FDIC), and the Office of Thrift Supervision (OTS) at the federal level, and with the banking departments of the various states.

Component	Supervisor and regulator
Bank holding companies (including financial holding companies)	FR
Nonbank subsidiaries of bank holding companies	FR/Functional regulator ¹
National banks	OCC
State banks -Members -Non members	FR FDIC
Thrift holding companies	OTS
Savings banks	OTS/FDIC/FR
Savings and loan associations	OTS
Edge and agreement corporations	FR
Foreign banks ² Branches and agencies ³ -State-licensed -Federally licensed Representative offices	FR/FDIC OCC/FR/FDIC FR
<p>Note: FR= Federal Reserve; OCC= Office of the controller of the Currency; FDIC= Federal Deposit Insurance Corporation; OTS= Office of Thrift Supervision</p> <p>1. Non bank subsidiaries engaged in securities, commodities or insurance activities are supervised and regulated by their appropriate functional regulators. Such functionally regulated subsidiaries include a broker, dealer, investment adviser, and investment company registered with and regulated by the Securities and Exchange Commission (or, in the case of investment advisors, registered with any state); an insurance company or insurance agent subject to supervision by a state insurance regulator; and a subsidiary engaged in commodity activities regulated by the Commodity Futures Trading Commission.</p> <p>2. Applies to direct operations in the United States. Foreign Banks may also have indirect operations in the United States through their ownership of U.S. banking organizations.</p> <p>3. The FDIC has responsibility for branches that are insured.</p>	

Figure 2. *Federal supervisor and regulator of corporate components of banking organizations in the United States*

Nevertheless, all these institutions focus on a common objective, to determine the level of overall safety and soundness of the banking organizations. This evaluation includes an assessment of the organization's risk-management systems, financial condition, and compliance with applicable banking laws and regulations. Instruments used are periodical on-site examinations, at least once a year, and inspections and off-site surveillance and monitoring. Additionally, there is an annual inspection of large bank holding companies (with consolidated assets of \$1 billion or greater) and smaller bank holding companies that have significant nonbank assets. In the last case, they

also make use of the consolidated financial information from subsidiaries in order to reduce double work.

The second component of the supervising activity is represented by the supervisory rating (CAMELS)⁽¹³⁾ based on the confidential report written after the on-site inspection. This tool is useful in determining those banking institutions which may raise concerns and in communicating the evaluation result further on. The Federal Reserve has another rating system known as RFI/C(D) and which analyzes risk management, financial condition, potential impact of the parent company and nondepository subsidiaries on the affiliated depository institutions, and the CAMELS rating of the affiliated depository institutions (Board of Governors of the Federal Reserve System, 2005, pp. 62-63).

As important as the previous mentioned elements, the financial regulatory reports filed

by the banking institutions, the Consolidated Reports of Condition and Income, often known as the Call Report, and the Consolidated Financial Statements for Bank Holding Companies, also offer valuable information which is used together with the findings from off-site monitoring. With the help of the System to Estimate Examinations Ratings (SEER) it is statistically estimated an institution's supervisory rating.

But market discipline cannot be improved without a proper accounting and disclosure policy. Some important steps towards the encouraging present state of things are the Federal Deposit Insurance Corporation Improvement Act, focusing on the importance of auditing, accounting and control standards applied by the financial institutions, and Sarbanes-Oxley Act of 2002, which tries to increase the accuracy of corporate disclosure and to determine and reduce corporate fraud.

However, changes are inevitable at structural level of the financial market so that in 1999 the Gramm-Leach-Bliley Act (GLB Act) was enforced. It permits banks, insurance companies and securities brokers-dealers to associate though the holding bank structure, by respecting certain requirements. In this situation, the Federal Reserve shares supervisory responsibilities with the other responsible authorities, according to the parties of the holding (Board of Governors of the Federal Reserve System, 2005, pp. 64-65).

The last part of supervisory activity is related to the international operations of American banking organizations (authorizing the establishment of foreign branches and foreign investments, chartering and regulating the activities, and establishing supervisory policy and practices regarding foreign lending) and of the activity of foreign banking organization in USA. Before 1978 the foreign banks were not subject to any supervision; the International

Banking Act of 1978 (IBA) created a federal regulatory structure for the activities of foreign banks with US branches and agencies. According to IBA, they are given the same powers as American banking organizations and they obey the same supervision rules as them.⁽¹⁴⁾ In 1991 another law was enforced, the Foreign Bank Supervision Enhancement Act (FBSEA), which increased the Federal Reserve's authority over the operations of foreign banks in the USA. It meant that a foreign banking company had to obtain Federal Reserve consent before establishing branches, agencies, or commercial lending business subsidiaries. Additionally, they must be examined on-site at least once a year or at every 18 months, depending on certain criteria, and in case of acquiring more than 5% in an American bank or holding bank they must obtain the consent of the Federal Reserve.

To sum up, though legislative improvements took place in time unfortunately the cautions regarding critical data such as credit history, income requirements and employment status were set aside when allowing borrowers to assume considerable higher risk than they were financially capable of. As the suppositions that the prices of houses were steadily increasing and assuming that the market level of liquidity would always allow selling eventual unwanted mortgages at profitable prices, loans were easily offered. In addition, portfolios were difficult to analyze and if access was to be given to them it was practically impossible for someone, especially without solid economical background education, to determine the assets' structure as they had a very intricate financial structure.

Once again, asymmetric information and adverse selection issues were complicating things. Not having enough information to determine the genuine value of the exchanged houses, prices did not reflect the reality and risks were underestimated.

4. Critique and empirical evidence

Trust and honesty are core elements in business. The mutual belief that the other part will stay true both to the contract as well as to its unspoken principles, which are made self evident through countless repetitions and the establishment of customs, is essential. However, when everybody's attention lessens, moral hazard can strike at the heart of business and destabilize the system as a whole.

The crash of the real estate market can be attributed to a series factors:

1) Low interest rates that stimulated aggressive demand (the political element had a huge weight, as both Democrats and Republicans enforced the

economical policy wherein the cornerstone was the increase in the number of citizens who had a house);

2) High level of leverage of US citizens and companies (innovation played a key-role as numerous financial products were launched on the market, also asymmetric information, as buyers of those instruments had less information than the sellers, as well as adverse selection amplified the negative result);

3) “Credit euphoria” of lender and borrowers in the US (due to the lax legislation which lost track of the methods used to evaluate risks, methods used by financial institutions in order to determine possible borrowers and their financial capacity of returning that credit);

4) Profitability incentives for higher management of banks, investment funds and mutual funds (as different objectives were in place, the principal-agent problem caused a expected vicious circle: higher assumed risks by the companies led to higher gains so that motivation increased, and managers were ready to risk more and more in order to obtain short-run results, sacrificing the financial long-term sustainability).

Of all these causes, the last one is the most alarming. By staying true to this philosophy the system worked for decades. But, when the incentives for short term results grew to large, many of them in the form of large bonuses or political votes, caution was tossed aside. Moral hazard started to play a key role in decision making and suddenly appearances became more significant than the reality itself.

Therefore, both the business community and simple citizens follow the general trend, and so just like the risk, the blameworthiness was spread among the parties. First the borrowers, who, even when they knew that they were at their limit, bought a dwelling. Second, policy makers, who chose to ignore economical considerations and used the image of the government in order to back a highly volatile market and to create the illusion of stability.

The authorities’ attitude is mostly concerning. The people who were supposed to know and to sign the alarm, refraining from doubtful practices chose to do the opposite. They turned a blind eye to the whole situation and jeopardized everything while thinking of the end of the year bonus that would be more than enough for them to retire. Because of these practices a shadow of doubt has been cast over the ethical and professional integrity of the world’s financial leaders as a whole. This is especially important when considering that, currently, they are the same ones who are supposed to solve the problem.

Notes

- (1) See R. McConnell, S. L. Brues, *Economics. Principles, Problems and Policies*, McGraw-Hill, Inc. Publishing House, thirteenth edition, 1996, pp. 595-610.
- (2) The extensive form of the Lemons Model game can be found in Don E. Waldman, *Microeconomics*, Pearson Education Publishing House, 2004, pp. 554-558.
- (3) More information on the important role of disclosure in a modern financial system and in reducing asymmetric information effects can be found in Mark M. Spiegel, Nobuyoshi Yamori, *Determinants of voluntary bank disclosure: evidence from Japanese Shinkin banks*, CESIFO working paper no. 1135, February 2004
http://www.cesifo.de/pls/guestci/download/CESifo+Working+Papers+2004/CESifo+Working+Papers+February+2004/cesifo1_wp1135.pdf.
- (4) The principal-agent problem deals with a contractual relation where one party, known as the principal, contracts with another one, the agent, who is supposed to act in his behalf. The problem emerges when the interests of the agent are different than the one of the principal, and therefore the agent's action can be hidden (McEachern, 2009, pp. 321-322).
- (5) The Government National Mortgage Association is referred to herein as "Ginnie Mae." Ginnie Mae, a wholly-owned corporate instrumentality of the United States within the Department of Housing and Urban Development, was created on February 10, 1938 by the Federal Housing Administrator, acting under Title III of the National Housing Act. Originally called the "National Mortgage Association of Washington," later the same year its name was changed to the "Federal National Mortgage Association" ("Fannie Mae"). Effective September 1, 1968, Fannie Mae was partitioned into two separate bodies, Ginnie Mae and Fannie Mae. At the same time, Fannie Mae's functions were partitioned, with secondary market operations retained by Fannie Mae and special assistance and management and liquidating functions transferred to Ginnie Mae. See Section 302 of the Charter Act (<http://www.ginniemae.gov/guide/statutes.pdf>).
- (6) Fannie Mae is a government-sponsored enterprise (GSE) chartered by Congress with a mission to provide liquidity, stability and affordability to the US housing and mortgage markets. Fannie Mae was established as a federal agency in 1938, and was chartered by Congress in 1968 as a private shareholder-owned company with three lines of business - Single-Family, Multifamily and Capital Markets - that provide services and products to lenders and a broad range of housing partners (<http://www.fanniemae.com/kb/index?page=home&c=aboutus>).
- (7) The Community Reinvestment Act (CRA), enacted by Congress in 1977 (12 U.S.C. 2901) and implemented by Regulations 12 CFR parts 25, 228, 345, and 563e, is intended to encourage depository institutions to help meet the credit needs of the communities in which they operate (<http://www.ffiec.gov/CRA/>).
- (8) See for more information Open Market Operations Archive, Intended federal funds rate, Change and Level (http://www.federalreserve.gov/monetarypolicy/openmarket_archive.htm).
- (9) More information on the purposes and functions of the Federal Reserve System can be found in „The Federal Reserve System: Purposes & Functions”, 9th edition, June 2005, Board of Governors of the Federal Reserve System, Washington, D.C.
- (10) The president of the Federal Reserve Bank of New York is a permanent member; the other presidents serve one-year terms on a rotating basis. The rotating seats are filled from the

following four groups of banks, one bank president from each group: Boston, Philadelphia, and Richmond; Cleveland and Chicago; Atlanta, St. Louis, and Dallas; and Minneapolis, Kansas City, and San Francisco. An alternate for each Reserve Bank president also is elected. This alternate, who must be a president or first vice-president of a Reserve Bank, may serve on the FOMC in the absence of the relevant Reserve Bank president (Board of Governors of the Federal Reserve System, 2005, pp. 11-12).

- (11) As of March 2004, of the nation's approximately 7,700 commercial banks approximately 2,900 were members of the Federal Reserve System – approximately 2,000 national banks and 900 state banks (Board of Governors of the Federal Reserve System, 2005, p. 12).
- (12) Stock in Federal Reserve Banks is not available for purchase by individuals or entities other than member banks (Board of Governors of the Federal Reserve System, 2005, p. 12).
- (13) CAMELS is an acronym for the six components of the rating system: capital adequacy, asset quality, management and administration, earnings, liquidity, and sensitivity to market risk.
- (14) The IBA implemented a policy of "national treatment" for foreign banks operating in the United States.

References

- Board of Governors of the Federal Reserve System, „The Federal Reserve System: Purposes & Functions”, 9th edition, June 2005, Washington, D.C.
(http://www.federalreserve.gov/pf/pdf/pf_1.pdf)
- Board of Governors of the Federal Reserve System, Open Market Operations Archive
(http://www.federalreserve.gov/monetarypolicy/openmarket_archive.htm)
- Bosworth, D., Dawkins, P., Stromback, T. (1996). *The Economics of the Labour Market*, Longman Singapore Publishers Publishing house, USA
- Engel, K., McCoy, P., „The CRA Implications of predatory lending”, 29 *Fordham Urban Law Journal*, no. 1571, 2002
(http://lsr.nellco.org/cgi/viewcontent.cgi?article=1029&context=uconn_wps)
- High Beam Research (October 20, 1997) „First Union Capital Markets Corp., Bear, Stearns & Co. Price Securities Offering Backed by Affordable Mortgages”,
(<http://www.highbeam.com/doc/1G1-19902035.html>)
- Holmes, S., „Fannie Mae Eases Credit To Aid Mortgage Lending”, New York Times, (September 30, 1999),
(<http://query.nytimes.com/gst/fullpage.html?res=9C0DE7DB153EF933A0575AC0A96F958260&sec=&spon=&pagewanted=1>),
<http://www.fanniemae.com/aboutfm/charter.jhtml?p=About%20Fannie%20Mae>
- Hudson, M., Reckard, S., „Workers say lender ran ‘boiler rooms’”, *Los Angeles Times, Business*, 2005
(<http://www.latimes.com/business/la-fi-ameriquest4feb0405,1,5202756.story?page=5>)
- McCornnel, R, Brues, S. L. (1996). *Economics. Principles, Problems and Policies*, 13th edition, McGraw- Hill, Inc. Publishing house, USA
- McEachern, A.W. (2009). *Microeconomics: A Contemporary Introduction*, 8th edition, Thomson South-Western Publishing house, USA

- Rasmusen, E. (2007). *Games and information: an introduction to game theory*, 4th edition, Blackwell Publishing house, USA
- Sharma, S. „A Political-Economy of the US Subprime Meltdown”, *Economic Analysis & Policy*, vol. 39, no. 2, September 2009
- Shiller, R.J. (2005). *Irrational Exuberance*, 2nd edition, Princeton University Press Publishing house (<http://www.irrationalexuberance.com/>)
- Spiegel, M., Nobuyoshi, Y., „Determinants of voluntary bank disclosure: evidence from Japanese Shinkin banks”, *CESIFO working paper*, no. 1135, February 2004 (http://www.cesifo.de/pls/guestci/download/CESifo+Working+Papers+2004/CESifo+Working+Papers+February+2004/cesifo1_wp1135.pdf)
- Stancu, S., „Hazardul moral în cadrul teoriei contractelor”, *Economical Informatics Journal*, no. 2 (18)/2001 (<http://revistaie.ase.ro/content/18/stancu.pdf>)

The Crowding out Effect on the Labor Market in Romania*

Mihaela Hrisanta DOBRE

Bucharest Academy of Economic Studies
mihaelah.dobre@gmail.com

Abstract. *Discrimination expresses any distinction, exclusion, restriction, preference or different treatment that disadvantages a person or group, in comparison with others in similar situations. The crowding out effect was first formulated by Bergmann (1974) and explains that an individual can obtain lower returns if he belongs to a branch dominated by the members of another group. The difference in pay between women and men is also reinforced by the segregation in the labor market, which may explain the crowding out effect.*

In this article we analyzed the level of segregation in the Romanian labor market starting from the workers professional status and their distribution by branch from 2003 to 2008. Crowding out effect was analyzed based on the gain function of the two groups (women and men).

Keywords: discrimination; wage; segregation; crowding; labor market.

JEL Codes: J01, J15, J16.

REL Codes: 12D, 12E, 12F, 12I, 12Z.

* Ideas in this article were presented at the Symposium „The global crisis and reconstruction of economics?”, 5-6 November 2010, Faculty of Economics, Bucharest Academy of Economic Studies.

1. Literature review

From the late nineteenth century many economists have analyzed the problem of discrimination in the labor market and especially the wage gap between women and men. Webb (1891) considers that women earn less than men, but not because they produce less but because they are usually underrated on the labor market. For Webb this inequality can be removed “through education”. Fawcett (1892) believe that “most women want to gain additional training, allowing them access to a larger number of trades.”

The wage gap between men and women in the labor market can be explained, starting from three reasons:

- the productivity difference and the human capital (Edgeworth, 1922, Mincer, 1974);
- women's choices regarding work;
- segregation in the labor market, which can be explained by the difference in mobility between women and men.

Segregation is the social separation of different classes, usually leading to social inequalities. The concept of segregation may acquire the same meaning as the concept of discrimination, denoting different practices which limits the access to labor for social groups. Among the factors that can lead to segregation are: the traits of labor demand and supply, the level of economic development, etc. Segregation can be horizontal, and in this case workers (female and male) are divided by sectors (primary, secondary and tertiary), and vertical, where employees are divided into professional categories and the educational level play an essential role.

The wage gap between women and men is also reinforced by the labor market segregation and their tendency to perform different labors. On one hand, men and women often predominate in various branches, on the other hand, in the same branch or business, women predominate in occupations less valued and less paid. Over 40% of women, according to the European Union Commission (2009), work in health, education and public administration. This figure represents twice the number of men in the same branches.

The concentration of women in certain branches determines a drop in wages. This phenomenon is known in literature as the “crowding out effect”. The crowding effect term on the labor market has emerged for the first time in the US during the women's trade union protest between 1890 and 1925. In 1922 the British economist Edgeworth argued that the fact that women's wages are lower than men's because women work only in certain fields (in other words they tend to concentrate just in certain branches). Unions have thus excluded women from certain jobs, creating a surplus of female workers, which led to

lower wages for their work. This artificially distorted the labor market, leading to lower wages for some groups and higher wages for others. In 1971, Bergmann estimated that the integration of black male workers with the white male would have a negative impact on the white workers income and in 1974 he analyzed the concentration of female workers in certain occupations. Starting from this analysis he believed that occupational segregation by gender may be a major factor in wage inequality between sexes.

According to the European Union Commission (Wille, 2010), women tend to occupy jobs requiring a lower salary, and men better jobs with a higher salary. This affects the average wage, creating the crowding out effect: wages drop in branches reserved for women, because there are too many women for a limited number of jobs. The crowding explains that a female worker may get higher returns if she is employed in a branch dominated in number by individuals who do not belong to the same group.

2. Empirical analysis

To assess the impact of segregation on the labor market we calculated the Duncan index (ID) using the main professional categories: employees, employers, self-employed and unpaid family workers. This indicator can be defined as follows:

$$ID = \frac{1}{2} \sum_{i=1}^n |f_i - m_i|$$

where n denotes the total number of occupations considered, i denotes the professional category, f_i and m_i denotes the level of employment for each professional category (i) related to the total level of employment for females and males. Data used for this indicator are from the National Institute of Statistics.

Duncan index can range from 0, when workers of both sexes are equally distributed in relation to the occupational categories, and 1 when there is a total segregation. In Table 1, the Duncan index has values closer to 0, which means that, in terms of professional status, there is no strong segregation on the Romanian labor market. There is a stronger differentiation between *self-employed*, a status mainly occupied by men, and *unpaid family worker*, in which women dominate. An analysis by activities (according to the CAEN classification) showed us an even smaller Duncan index (Annex 1).

Table 1

The Duncan index in relation to the employment status

	2009		2008		2007		2006	
	Man	Woman	Man	Woman	Man	Woman	Man	Woman
Employed	67%	68%	66%	67%	66%	67%	64%	65%
Employer	2%	1%	2%	1%	2%	1%	2%	1%
Self-employed	25%	13%	25%	13%	25%	12%	25%	13%
Unpaid family worker	6%	19%	6%	20%	7%	20%	8%	21%
Duncan Index	0.13		0.36		0.14		0.14	

Source: INS and own computing.

Starting from Sorensen (1990) and Bergmann (1974) studies we calculated the salary gap for different activities between women and men, the employment level by branch for the two groups to see which activities are dominated by men, respectively women and the difference in salary. Wage gap has been calculated using the formula proposed by C. Baudelot and A. Lebaupin (1979) and was calculated for 2003-2008 period for 40 activity branches.

$$e = \frac{SM - SF}{SM} 100 \quad (1)$$

where: SM denotes the salary of men and SF denotes the salary of women.

Throughout this period women were better paid than men in the following branches: *real estate and other services, construction and woodworking*. But these branches are dominated by men, which explains the crowding out effect formulated by Bergmann (1974).

To calculate the difference between female and male employment by branches, we used the following formula:

- for males:

$$E_{GOm} = \frac{GOmj}{GOm} \times 100 \quad (2)$$

where j denotes the branch, and m denotes the employment level among males for different branches;

- for females:

$$E_{GOf} = \frac{GOjf}{GOf} \times 100 \quad (3)$$

where f denotes the employment level among females for different branches.

Table 2 shows branches that, in terms of employment, are dominated by females and their salary gap. With few exceptions (year 2004 for the last six branches and the years 2007, 2008 for *public administration*) male workers have higher wages. We can say that women generally occupy positions in the labor market that does not require a very high level of qualification (nurses, shop assistants, etc.).

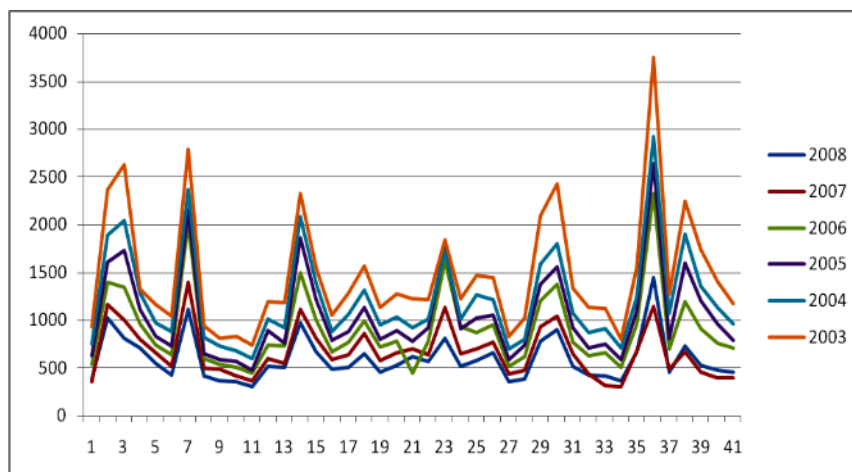
Table 2

The wage gap in branches dominated in terms of employment by women

Branch	2003	2004	2005	2006	2007	2008	Code
Food and beverages	18%	16%	19%	18%	20%	16%	6
Textiles	17%	11%	17%	14%	19%	16%	8
Clothing	13%	14%	10%	12%	16%	10%	9
Leather and footwear	9%	4%	5%	12%	11%	12%	10
Electrical Machinery	20%	14%	19%	24%	20%	19%	22
Commerce	0%	-21%	23%	25%	20%	15%	33
Hotels and restaurants	0%	-24%	15%	15%	14%	5%	34
Financial intermediation	0%	-31%	16%	21%	15%	21%	36
Public administration and defense	0%	-25%	4%	2%	-10%	-12%	38
Education	0%	-34%	13%	16%	19%	17%	39
Health and social care	0%	-28%	14%	18%	21%	11%	40

Source: INS and own computing.

Figure 1 shows that, generally, in sectors dominated by women, men's wages are smaller than in other branches (dominated by man), except for the “37” and “39” branches. This situation is maintained over the 2003-2008 period.

**Figure 1.** Male wage by branches during 2003-2008

Crowding out effect can be explained using the model proposed by Bergmann (1974) and Sorensen (1990). For this model we used panel data from 2003-2008 that was taken from the National Institute of Statistics. To explain the crowding effect we estimated the income function for the two groups (women and men):

$$\ln w_i = \beta_0 + \beta_1 \times GO_i + \beta_2 \times X \quad (4)$$

where:

- i denotes the affiliation group and β the coefficients to be estimated;
- $\ln w$ denotes the nominal annual income by branches;
- GO_i denotes the employment level by branches;
- X denotes a dummy variable that takes the value 1 when males dominate a particular branch in terms of employment and 0 if otherwise.

$$\text{For women: } \ln w_f = 6.85 - 0.023 \times GO_F - 0.182 \times X \quad (5)$$

[136.6]
(0.06)

[-2.32]
(0.005)

[2.61]
(0.07)

$$\text{For men: } \ln w_m = 6.81 - 0.021 \times GO_B + 0.131 \times X \quad (6)$$

[99.5]
(0.04)

[-4.18]
(0.009)

[-2.56]
(0.05)

Both equations show a negative correlation between wage and employment level. The results are consistent with the economic theory, an increase of employment usually leading to a decrease of the average wage. Yet, the *employment level* corresponding coefficient is very low (econometric significant), indicating a strong wage rigidity in relation to employment. However, the differences between equations (5) and (6) are interesting in terms of the dominance effect. Thus, according to equation (5), in economic activities dominated by women, their wage tends to decline compared to the average (the associated dummy variable has a negative coefficient: -0.182). According to equation (6), male wages tends to increase in branches dominated by men (the associated dummy variable has a positive coefficient: 0.131).

Based on the dummy coefficients from equation (5) and (6) the hypothesis formulated by Bergman (1974) is confirmed: a branch dominated by men leads to wage increases as opposed to branches dominated by women. The dummy variable coefficients show a homogeneous distribution by branches, a fact confirmed by the Ducan index presented above.

3. Conclusions

The Romanian labor market has a low level of segregation, which means that there is no branch dominated by either women or men. In sectors dominated by women, with the exceptions of *financial intermediation* and *public administration*, men receive lower wages than in other branches where they dominate.

Based on the two income functions analyses we observed rigidity of wages in relation to employment, which indicates a weak correlation between the two variables. This shows that changes in occupancy were not strong enough to alter the dynamics of the average wage. The dynamic of wages and the salary differentiation between different branches seems to be influenced by other factors (the power of unions and employers, labor productivity, etc.) rather than the level of employment. Crowding out effect occurs in the Romanian labor market, especially since there is a tendency to employ women and men in different fields and occupations.

Acknowledgment

This work was supported by CNCSIS-UEFISCSU, project number PNII-RU code PD/2010 (number 77/2010).

References

- Bergman, B., „Occupational segregation, wages and profits when employers discriminate by race and sex”, *Eastern Economic Journal*, n°1 april/july, 1974, pp. 103-110
- Baudelot, A., Lebaupin, A., „Les salaires de 1950 a 1975”, *Economie et Statistique*, Juillet, 1979
- Edgeworth, F.Y., „Equal pay to men and women for equal work”, *Economic Journal*, Vol. 22, 1922
- Fawcett, M., „Equal pay for equal work”, *Economic Journal*, Vol. 28, 1918
- Mincer, J. (1974). *Schooling, Experience and Earnings*, New-York, Columbia University Press
- KANMI, F.D. (2009). *Discrimination en genre sur le marche du travail et pauvreté monétaire au Camerun*
- Sănduleasa B.A. (2010). *(In)Egalitatea de gen pe piața muncii din România*, Teza de doctorat, Universitatea din București
- Wille, P., „Le fossé salarial entre les femmes et les hommes”, 2010, www.assembly.coe.int
- Sorensen, E., „The Crowding Hypothesis and Comparable Worth”, *The Journal of Human Resources*, Vol. 25, No. 1, 1990, pp. 55-89

Annex 1

The Ducan Index

2003	2004	2005	2006	2007	2008	Activity	Code
0,03	0,02	0,03	0,02	0,02	0,02	Agriculture	1
0,03	0,02	0,03	0,02	0,02	0,02	Coal mining and preparation	2
0,04	0,04	0,04	0,03	0,03	0,03	Hydrocarbons extraction and ancillary services	3
0,01	0,01	0,01	0,01	0	0	Metalliferous ores quarrying and preparation	4
0,01	0,01	0,01	0,01	0,01	0,01	Other extractive activities	5
-0,02	-0,01	-0,02	-0,02	-0,02	-0,03	Food and beverages	6
0	0	0	0	0	0	Tobacco products	7
-0,06	-0,06	-0,05	-0,05	-0,05	-0,04	Textile products	8
-0,27	-0,27	-0,26	-0,25	-0,23	-0,21	Clothing articles	9
-0,07	-0,07	-0,07	-0,07	-0,07	-0,07	Leather goods and footwear	10
0,03	0,03	0,03	0,03	0,03	0,03	Wood and wooden products manufacturing	11
0	0	0	0	0	0	Pulp, paper and paper products	12
0	0	0	0	0	0	Publishing houses, polygraphy and recording	13
0	0	0	0	0	0	Crude oil processing, coal coking and nuclear	14
0	0,01	0,01	0	0,01	0,01	Chemical substances and products	15
0	0	0	0,01	0,01	0,01	Rubber and plastic products	16
0,01	0,02	0,02	0,02	0,02	0,02	Manufacturing of construction materials and other	17
0,04	0,04	0,03	0,04	0,03	0,03	Metallurgy	18
0,05	0,05	0,05	0,06	0,06	0,06	Metallic construction and metal products	19
0,06	0,05	0,05	0,05	0,05	0,04	Machinery and equipment	20
0	0	0	0	0	0	IT and office means	21
-0,01	-0,01	-0,02	-0,02	-0,03	-0,03	Electric machinery and appliances	22
0	0	0	0	0	0	Radio, TV and communications equipment	23
0	0	0	0	0	0	Medical, precision, optical and watchmaking	24
0,01	0,01	0,01	0,01	0,01	0,01	Means of road transport	25
0,04	0,04	0,04	0,04	0,04	0,04	Means of transport not included in road transport	26
0,02	0,02	0,01	0,01	0,01	0,01	Furniture and other industrial activities	27
0,01	0,01	0,01	0,01	0,01	0,01	Waste recovering	28
0,06	0,06	0,06	0,06	0,06	0,06	Electric and thermal energy, gas and hot water	29
0,04	0,04	0,05	0,05	0,05	0,04	Water catchment, treatment and distribution	30
0,02	0,02	0,02	0,02	0,02	0,01	Construction	31
0,02	0,1	0,1	0,1	0,11	0,12	Trade	32
-0,03	-0,04	-0,03	-0,03	-0,02	0	Hotels and restaurants	33
-0,01	-0,01	-0,01	-0,01	-0,01	-0,01	Transport, storage and communications	34
0,06	0,05	0,05	0,05	0,06	0,06	Financial intermediations	35
-0,01	-0,01	-0,01	-0,02	-0,02	-0,02	Financial, banking and other economic services	36
0,02	0,02	0,02	0,03	0,03	0,04	Public administration and defence	37
-0,02	-0,02	-0,02	-0,02	-0,01	-0,01	Education	38
-0,08	-0,08	-0,07	-0,07	-0,07	-0,07	Health and social assistance	39
-0,08	-0,09	-0,09	-0,09	-0,09	-0,09	Other activities of the national	40

Source: INS and own computing.