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# THREAT TO FREE INFORMATION AND FREEDOM OF INFORMATION<sup>1</sup>

Ulrich Müller  
Universität Karlsruhe (TH)

**Abstract:** *“Imagine a world in which every single person on the planet is given free access to the sum of all human knowledge. That’s what we’re doing.”*<sup>2</sup>

*At a time when internet access is widely available, information is spread around the globe rapidly. This development enables people in various parts of the world to gain access to information faster than ever before imagined.*

*A lot of the information on the net comes free of charge, which allows access regardless of money.*

*However, as everybody is able to provide information more or less anonymously on the net we have to focus on the quality of the information supplied.*

**Keywords:** freedom of information, objectivity, anonymity, credibility, censorship

**JEL Classification:** A13

## 1. LACK OF OBJECTIVITY

Never before has propaganda reached such a sophisticated level as in the current Iraq conflict. The parties involved in conflicts use the internet to convince people of their point of view. That is nothing new, but unlike in previous wars like World War II the target group for the propaganda is not limited to one's own people. It's rather an attempt to change the world's view of its own position. Radical groups use the internet to recruit new fighters for their cause. That is how Al-Qaida and other radical groups recruit young men to take part in terrorist attacks without significant physical contact. “They are mostly single males that are born and raised in Europe[...] Given the fact that more than 40 percent of them were born in Europe and an additional 55 percent have been raised in European countries or are long-term residents, the label 'home-grown' is very appropriate to this group.” (Bakker, 2006)

Take the recent incident between Iran and Great Britain, where 15 British military personnel were captured for entering Iranian Waters. The German online news bulletin Spiegel online referred to the techniques used as “Propagandakrieg” (English: War of Propaganda).

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<sup>1</sup> This paper was initially published in Proceedings of the International Conference on *European policies on business development*, Iași, Romania, 26-27 October 2010

<sup>2</sup> Jimmy Wales (founder of Wikipedia) July 2004

While on one hand letters alleged to have been written by marine Faye Turney were published addressing Prime Minister Blair asking for a retreat from Iraq, on the other hand the British Government tried to convince the United Nations Security Council of the illegitimacy of the Iranian action. That caused Iranian President Mahmud Ahmadinedschad to accuse Britain of using propaganda instead of solving the crisis diplomatically (Spiegel Online).

This example raises the question of just how objective can information on the internet be, and especially free information?

One issue with any information, but particularly with freely published information provided at no cost is that we have to bear in mind the intention of the author and why he publishes this information on the net. This does not only touch upon major political issues. It already starts with simple things for everyday use.

Just imagine you are looking for information on a product you are considering buying. What kind of information would you get from the producers or the retailers webpage? Obviously these pages will rather provide articles in favour of the product and will point out all and possibly only the good qualities it has. If you search for information on the same product on pages where customers can rate the product, you are likely to find much more discerning thoughts on that product especially because unsatisfied customers more often feel the need to express themselves publicly than do satisfied customers.

What is very obvious from this simple example is that truth often lies somewhere between at least two points of view. In our example independent information could be supplied by a testing institute that is not funded by the industry.

With political topics the solution to the question, what is true and what false, can not be found that simply. On these topics it was already difficult to get reliable information from the classic print media, where you had people responsible for what was written in their Magazine or newspaper.

## **2. ANONYMITY VERSUS CREDIBILITY**

How do we figure out how trustworthy information on the net really is? Even if we believe a statement was given by an author we trust, how can we be sure who it really was written by? In the digital world there are plenty of ways not only to fake articles, but even worse to fake identities.

In some situations the traceability of a publication to its real author is not wanted for a variety of different reasons. Being identifiable is a mayor concern to those authors who have to fear prosecution because of political or religious beliefs that are prohibited in their home countries. The Chinese poet and journalist Shi Tao was sentenced to 10 years in prison for writing an email about

directive by the Communist Party of China to a recipient abroad. The US company Yahoo enabled the prosecution by providing Shi Tao's user data to Chinese authorities (Amnesty International).

Anonymity on the net is a blessing for people who live in countries that suppress freedom of speech. That way they get the chance to make their situation public without risking their health or worse their life. If internet providers collaborate with such regimes they ruin this valuable chance. On the other hand anonymity on the net can also become a curse. During May 06 anonymous authors began to polish the critical article about head of Siemens, Klaus Kleinfeld on wikipedia. After being discovered they continued correcting the article with a Siemens signature (ZEIT online).

Anonymous users can do major damage not only to articles, but also to a victim about whom they write unjust articles. Daniel Brandt points out on his website that "there is no recourse for the victim, and no one can be held accountable" (Wikipedia Watch).

Jaron Lanier points out the problems that occur when the majority decides what is right and what is wrong rather than the experts who should know best. In his article "Digital Maoism" (Janier, 2006) he demonstrates impressively how the smattering of the public can overrule a single author even in his personal biography.

The questions and thoughts about who decides what is true are not completely new. They for example already appeared in George Orwell's book "1984" long before the invention of the internet.

Lanier speaks of "a new online collectivism" based on "the idea that the collective is all-wise". Phrases are taken from different contexts and authors to form so called meta information that seems to be very objective and therefore very good. But by ripping text passages from its context information gets lost. These problems not only frequently occur on information platforms like Wikipedia, more widely websites participate in a race to become "the most 'meta' site" available.

Another problem with this kind of information is the border between facts and opinions. What part of an article is fact and where do personal points of view influence the quality of information? On platforms like Wikipedia, where everybody can edit the material, this can lead to so called "edit-wars". Two authors of different opinions alter each others articles in turn because they can not agree on what really is true.

To improve the reliability of information on the internet and to prevent masquerade, digital signatures were invented. Digital signatures use an asymmetrical encryption method. This means you need a different key to decrypt than to encrypt. And as long as the private encryption code remains secret, while the decryption code can be publicly accessible, the authenticity of the author is proven.



### 3. CENSORSHIP

Censorship is one of the oldest methods used by officials to suppress people. It is one of the most severe threats to free information.

The best information is completely worthless if it is not accessible.

Does complete freedom of speech exist on the internet? Or does “Democracy on the web work(s)” as google states in their company philosophy at number 4?

Honestly we have to answer these questiones with NO!

Spiegel online, reports that 30.000 Chinese censors crawl through the net everyday (Spiegel Online) (Kuhn, 2007).

Amnesty International accuses search engines of censoring search results in China. According to Amnesty International Microsoft, Google and Yahoo have signed a contract with the Chinese government. Topics that are not accessible in China anymore are: Taiwan, Tibet or the massacre on Tiannamin square after the democracy movement in 1989 amongst others.

Google is risking its credibility. By this agreement Google has managed to break 6 of its 10 precepts that up to now form the company’s cooperate philosophy. For example “Google has steadfastly refused to make any change that does not benefit to the users[...]” (*Google Corporate Information: Our Philisophy*) or “[...]our mission is to facilitate access to information for the entire world[...]” (*Google Corporate Information: Our Philisophy*)

Sadly Yahoo now takes censorship one step further. Yahoo changes words in emails that could be part of Javascript commands into similar words that don’t exist in Javascript. According to ZDNet this problem could easily be solved by simply removing the Script-Tags instead of changing the words (Olsen and Müller, 2002).

If you now think that at least Europe is not affected by censorship you are wrong.

Google identifies the country of origin of a person who uses their service using the IP address. This information is used to filter search results. For users in Germany, Switzerland and France websites with a lot of swastikas like stormfront.org don’t appear in search results (Schröder, 2002).

The worst thing about this is that Google does not see a need to inform its customers about this. And when asked, Nathan Taylor of Google replied:

“Google does not manipulate its search results. We do however remove pages from our index if a webmaster requests it.”

But those are not the only companies who think they know what’s best for their customers. Censorship has become increasingly fashionable. Countries have started do grasp the potential of the internet and how to use it to their advantage. Never have filter techniques been more advanced.

Furthermore besides new techniques such as word filters, the tried and tested older techniques like blocking large parts of the internet are still used.

From simple to sophisticate whenever the means of publishing become widespread and potentially more democratic the hidden hands on the levers of power find ways to manipulate it. It was ever thus.

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# HUMAN CAPITAL AND EDUCATION FOR SUSTAINABLE DEVELOPMENT IN A GLOBAL WORLD

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**Abstract:** *The world continues to face various critical challenges such as: human-induced climate change, the rapid depletion of natural resources, the loss of biodiversity, increased poverty, the dependency of our economic systems on continuous growth in consumerism and so forth. Sustainable economic development focuses on the development of the economic infrastructure, in which the efficient management of our natural and human resources is crucially important. This paper presents on one hand the main steps made for creating, defining and applying the principles of sustainable development and on the other hand, it tries to highlight the role of education seen here as a powerful factor in modeling our most important resource: human capital.*

**Keywords:** sustainable development, human capital, education, European Union

**JEL Classification:** A13, O15, Q56

## 1. INTRODUCTION

There is a direct line between economic development and environment that causes changes to the natural environment first through the utilization of natural resources and secondly through pollution and the discharge of waste into the environment, as result of human activity. The changes (some of them irreversible) of the ecological balance equally has drawn the attention of scientists, politicians and society in general, who established the necessity to integrate all the efforts in the line of preventing and removing the consequences of environmental pollution, together with a rationalization of the resource consumption. Therefore, the concept of sustainable development emerges as a reaction to the environmental threats which bring serious hazards in regard to the human wellbeing. Because the destruction of the environment could affect our existence to its deepest roots, sustainable development is forced to handle the problem of *non-declining per capita utility* (Neumayer, 1999) through a complex approach who includes economic, social, political and ecological aspects, promoting harmonious linkages between economic development, social equity, efficient usage of the natural resources and the environmental preservation.

The term sustainable development becomes common language for economists, sociologists, environmentalists, philosophers and politicians, being thus a real presence in the academic world as well as in politics; unfortunately, since a few decades ago, the idea has been trapped in a theoretical world and its practicality being enhanced only recently.

Therefore, the concept of sustainable development tends to lie in the ‘three spheres’ (Little and Green, 2009) of environment, society and economy, and all the issues such as climate change, rapid depletion of natural resources, population growth and consequently the risk of increasing poverty, involve two or more of these spheres.

This paper will present a brief history regarding the emergence of sustainable development along with the most important moments in defining and applying the concept’s objectives and in the second part, will try to argue why education, through its ability to form human capital, is the best way of moving society to a sustainable future.

## 1. THE MALTHUSIAN NIGHTMARE

The debates regarding environmental issues and human wellbeing has marked the economic philosophy for almost two centuries, beginning with Thomas Robert Malthus, a first line representative of classic economists. In his *Essay on the Principle of Population*, he drew the attention to the fact that ‘the population, when unchecked, increases in a geometrical ratio and subsistence for man in an arithmetical ratio’ (Rogers, 2008, p. 20), and from this perspective, he pointed out that the power of population is indefinitely greater than the power of the earth to produce subsistence for man. With this assumptions, Malthus rang the ‘alarm bells’ for the first time and *cut loose* to a great debate which has concerned the minds of man for almost two hundred years, known today as the *Malthusian catastrophe* or *nightmare*. In the same way, through the voice of David Ricardo, also a classical economist appears the idea that ‘economic growth must come to an end, sooner or later, due to scarcity of natural resources’ (Stoica, 2005, p. 8).

In fact, technological advancement and industrialization of agriculture have improved farmers techniques, thereby ‘production has increased much more rapidly than population, so much so that in real terms, the price of food is much lower today than it was two hundred years ago’ (Baumol, Litan, Schramm, 2007, p. 20), proving the limits of traditional Malthusian theory. However, the debates about this theory has continued through time, with many critics wondering how it is possible that with an increase in population size up to six billion, the humankind still manages to feed itself.

The next Malthusian moment is represented by the ideas postulated by the Club of Rome. The results of the researches made by The Massachusetts Institute of Technology (MIT), published in

Meadows's 'Limits to Growth' in 1972 had such a big impact that shooked the very foundations of the optimistic views, forcing the humankind to be aware that the problems given by economic growth are inseparable from those of environmental pollution, population boom and the resource depletion (Pohoățã, 2003). According to this study, 'population and industrial capital will continue to grow exponentially, which leads to a similar growth in pollution and in demand for food and non-renewable resources' (Cole, 2007, p. 241). Meadows argues that given the limited stock of non-renewable resources and the non-declining demand for these could drive humanity to collapse into the near future. Fortunately, as the time passed, 'most if not all of the Club of Rome's predictions for the next 30 years were not borne out' (Rogers, Jalal and Boyd, 2008, p. 20).

Last but not least, Lester Brown is shown to be another important representative of the Malthusian theory. In 1974, Brown founded the World Watch Institute (the first research institute devoted to the analysis of global environmental issues) and later on, in 2001, the Earth Policy Institute, a nonprofit research organization. As Brown mentions, 'both of them are presenting facts regarding the global use of natural resources and also presenting viable alternatives for our consumption trends' (Brown, 2006, p. 17). He is one of the world's most widely published authors being one of the mainstream environmentalists, especially due to his book *Plan B: Rescuing a Planet under Stress and a Civilization in Trouble*, published in 2003, which is considered to have almost the same impact as the Club of Rome's report.

Of course, many other names could find a place in this short review of the Malthusians, but it is neither the place nor the purpose to offer an exhaustive description of them. Important for us is the way they managed to provoke society to reflect even deeper on the dangers that may occur if current consumption trends are maintained and if we do nothing to protect what we have.

## **2. AN INTERNATIONAL CONCERN FOR GLOBAL PROBLEMS AND THE EMERGECE OF SUSTAINABLE DEVELOPMENT**

Beginning with the fact that all human activities affect the ecological balance, international community has decided to handle the environmental problems by taking common actions at a global scale, driven from the fact that, on the one hand the level of pollution and the imminent depletion of the natural resources do not account for borders and on the other hand, that the gaps between industrialized countries and the undeveloped states are increasingly profound.

Therefore, in 1972, in Stockholm, Sweden took place the International Conference on the Human Environment. It was the first major conference on international environmental and development issues. The meeting agreed upon a Declaration which contained 26 principles concerning the environment and human development: an Action Plan for Human Environment with

three major components (The global environmental assessment programme – Earthwatch, Environmental management activities and International measures to support the national and international actions of assessment and management) (Damian, 2007, p. 5). Another achievement of the Stockholm Conference was the creation of the United Nations Environmental Program (UNEP) that had the mission to ‘provide the leadership and encourage partnership in carrying for the environment by inspiring, informing, and enabling nations and peoples to improve their quality of life without compromising that of future generations’ (UNEP Mission). However, the anticipated impact of the Stockholm Conference was less than expected, especially because in some countries environmental protection and the need for development represented two competing commitments, therefore they were treated separately.

In 1983, the UN General Assembly created the World Commission on Environment and Development which was later known as the Brundtland Commission, named after its Chairman, Gro Harlem Brundtland, then Prime Minister of Norway and later head of the World Health Organization. Four years later, the Commission published the Brundtland Report, entitled *Our Common Future*. The report starts from what had been achieved at Stockholm and provides the most politically significant of all definitions of *sustainable development*: ‘sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs’ (Our Common Future, 1987, p. 24). Albert Bartlett argues in an article regarding sustainable growth and population increase, published in 2006, that this definition, coupled with the statement of the need to “sustain human progress into the distant future”, is crucial for an understanding of the term sustainable development. Unfortunately, says Bartlett, ‘the definition gives no hint regarding the courses of action that could be followed to meet the needs of the present, but which, in doing so, would not limit the ability of generations, throughout the distant future, to meet their own needs’ (Bartlett, 2006, p. 21).

Despite all the critics and the controversies formed around the report, the concept of sustainable development emerged, defining an important moment in the human confrontation with poverty and environmental problems.

The Brundtland Report opened a way for the creation of the Agenda 21 and the principles of the Rio Declaration at the UN Conference on the Environment and Development (UNCED) which was held in Rio de Janeiro, Brazil, during the summer of 1992. This conference gathered 115 state leaders, marking an unprecedented event, and on this occasion it was officially recognized, at a global level, ‘the necessity of integrating economic development with environmental protection as the main objective for sustainable development’ (Damian, 2007, p. 7). The key results of the Conference were: the Rio Declaration, the Agenda 21 and the Commission on Sustainable Development. Moreover, most countries welcomed the idea and engaged in the implementation of

Agenda 21, a moment which led to the preparation of national strategies for sustainable development.

Indeed, Rio de Janeiro is seen as the turning point in the history of sustainability dealing less with theoretical approaches and concentrating more on finding the necessary actions for developing local, national and global strategies for sustainable development.

The year 1997 marks another important moment in the sustainable development objective implementation process through the Kyoto Conference on Climate Change. Leaders from 160 countries had then negotiated an agreement, known as the Kyoto Protocol, which aims to cut emissions of greenhouse gases. The United States has proposed only a stabilization of emissions, not their reduction, while the European Union insisted on a 15% cut of polluting gases. Finally, a compromise was reached and the industrialized countries have committed themselves to an overall reduction in emissions of greenhouse gases by 5.2% in 2008-2010 compared to the 1990 levels. Kyoto targets were from the beginning very ambitious, which is why the United States refused to ratify the Protocol invoking economic losses. The Protocol entered into force only on 16 February 2005 after its ratification by Russia (in November 2004), fulfilling thus the primary condition for its implementation (the ratification of by 55 countries that produce 55% of global CO<sub>2</sub> emissions).

United Nations Summit on Sustainable Development held in Johannesburg in 2002 represented a milestone in creating partnerships between the UN, governments and nongovernmental organizations, bringing together 104 heads of states from all over the world (Damian, 2007, p. 8). Some authors believe that the summit was ‘a step in the movement concept (sustainable development) in a more productive exploration of the relationship between economic development and environmental quality’ (Asefa, 2005, p. 1), reaffirming sustainable development as a central element of the international agenda, by providing a new impetus for the introduction of practical measures directed towards fighting global poverty and environmental protection.

Johannesburg Summit confirmed a trend that appeared at the Rio Conference in 1992, on the growing importance of socio-economic pillars of sustainable development, reviewed the Johannesburg Declaration.

### **3. THE ROLE OF EDUCATION IN THE DEVELOPMENT OF HUMAN CAPITAL**

Human resource is based on what we call *the Human*, who through all his actions is contributing to his development and to human society as an integrative part. During the modern history, all countries focused on the economic development in order to ensure the welfare and human security.

Education for sustainable development has enormous potential due to its capacity to train the young generation to give rise to a vision of sustainability that can offer a link between economic progress, social welfare and respect for cultural diversity. By improving the access to quality education, by reorienting existing education programs towards sustainable development, by providing public information designed to draw attention to the risks that we all assume, from the individual, community, society and ending at global scale, by promoting it at all levels of education, whether formal or informal, highlighting the principles and values on which a sustainable society is based, by promoting ‘lifelong learning’ and the list goes on, we can make substantive changes within the individual and social structure of the new generation, so that sacrifices made today are for the benefit of tomorrow.

Wolfgang Lutz, Professor of Social and Economic Statistics at the Vienna University and Leader of the World Population Program at the International Institute for Applied Systems Analysis (IIASA) in Laxenburg, Austria, noted in an article published in 2009 that the answer to the seductive question regarding what is the universal *root* that can causes desirable developments and has the greatest long-term effect on human wellbeing for all cultures and subgroups of the world population, is found in the mixture of education and health. To strengthen his assumption he suggests a radical refocusing of international aid: ‘Empowering people through education rather than corrupting them through money’ (Lutz, 2009, p. 3).

Today, the present state of society requires a new way of development which integrates the human dimension from another perspective (of complexity and diversity), in which education plays an important role.

Therefore, the present society requires a new way of development or an alternative, which can integrate the human dimension from another perspective - that of complexity and diversity. This new approach imposed by the economic, social and political at the beginning of the XXI century, cannot ignore education, the best gain for the individual and the community and cannot evade the future and its impact on economic, technological, social, political, cultural aspects of the human being.

From a temporal perspective, the role that education in general and economic education in particular can play in the process of human development, is much more shaded and derives from a different degree of involvement and exploitation of people's creative capacities, as well as from their different ways to manifest demand for present and future welfare, aiming towards a new quality of life, that can better reflect their needs and aspirations.

Knowledge has become the first component of human development in general and of the economic one, in particular. Developed countries evolve rapidly on the coordinates of the postindustrial economies which can be understood as knowledge economies. Taking into



consideration these requirements of a society based on knowledge and learning, one aims to create a new specific lifestyle of an open society. In this context, knowledge and information are the true sources of power because through their consumption, they amplify, multiply and diversify. Unlike other resources, knowledge is infinitely expandable, representing a virtually limitless resource for economic development, which has not only been recognized as such, but it has been consistently promoted by the powers of the world from whom progress can be achieved through performance, creativity and imagination.

At this point it can be assumed, beyond any doubt, that education has an important positive effect on economic growth, becoming an indispensable tool to sustainable development. No economic development is possible without good education. Especially in the case of developing countries with low human capital, a huge boost to economic sustainable growth can only be achieved through large investments in education and the adoption of new technologies which require more specialized work, or in other words more educated people.

Despite the present difficulties related to factors such as the lack of funding, lack of time, of access to data, training, mentality, of a wide interdisciplinary research, performance indicators, technical problems, etc., organized university research initiatives designed to support and facilitate implementation of sustainability are present in the whole world and in this game European Union plays a leading role through its policies meant to encourage the efforts made by member states for creating a more strategic approach in terms of sharing knowledge and best practices to foster education for sustainable development.

#### 4. CONCLUSION

The philosophy of sustainability, which will concern open minds for a long time, approaches both human and environmental condition, in its complexity and in all life aspects. Given the facts that *the Man* not only can affect the environment but also can threaten his very own existence, this perspective should offer us a starting point for some reflections regarding the running events planned worldwide from 1972 until now. Looking back at these events, we can notice a shift of the debate from environmental issues to the sustainable economy and society development and later, to on poverty and quality of life, which brings out the multidimensional aspect of the concept. The biggest challenge for sustainable development remains the uncertainty of the future and from this particular reason it becomes imperative that future events – such as those presented in this paper – must not neglect the global scale of the concept, since environmental hazard does not know borders.

Our most important resource (Human Capital) is found in abundance, and it can be trained through education. In his statement regarding the principle of education, Kant said that ‘children

ought to be educated, not for the present, but for a possibly improved condition of man in the future; that is, in a manner which is adapted to the idea of humanity and the whole destiny of man' (Kant, 1900, p. 14).

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# POSSIBLE SOLUTIONS TO THE WORLD CRISIS. AN ACCOUNTING PERSPECTIVE

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**Abstract:** *Purpose – Our aim is to seize the essential aspects of the economical-financial environment and the alternatives that the companies have in their confrontation with the current challenges, the reorganization of the company being regarded as an option for ensuring the continuity of their activity. We have also been interested in the issue of intangible assets, which lie at the basis of the process of value creation by the company. Methodology – The article is a critical review of the process of reorganization and of the importance of the intangible asset, providing a personal perspective. Conclusions – The process of reorganization is no longer an option, but an essential condition for avoiding the disappearance of the companies from the market.*

**Key words:** reorganization, reengineering, mergers, intangible assets, economic crisis.

**JEL Classification:** M41

*Those who have the privilege to know  
have the responsibility to act.  
Albert Einstein*

## 1. INTRODUCTION

In the chaos created by opening a new “Pandora’s box”, from which unstoppable monsters have emerged (with a more complex gear than that of the 1929-1933 crisis), it is necessary to perform a fundamental analysis and to radically redefine companies in what concerns the cost, the quality, the service and the rapidity of the processes.

Economists may prove, using graphs and figures, that the current economical-financial crisis was to be expected. The cyclic nature of economy will always lead to the same result. However, the solutions to diminish the effects of the crisis are in our hands, as a result of the experience acquired and of the lessons provided by history (Mortreuil, 2010).

The dynamic nature of the economic environment where commercial institutions perform their activity determines a sequence of quantitative and/or qualitative transformations, which can be generically called restructuring. The economic concentration, the economic development in industrialized countries, the technological evolution, the globalization of the financial markets, the access conditions on international markets, can be just some of the causes that determine a company to start the restructuring process. In competitive conditions, the entities attempt through various types of *concentrations* to protect themselves, to ensure control over supply and sales, to annihilate their rivals, to reduce the possible business risks, and to develop.

We should not forget that the profound mutations of the current economic context have led to a reanalysis of the strategic plans, to a rethinking of the vision on the future of the business, and the companies had to engage in a mission to reinvent their work procedures. The business environment undergoes a fast transition process towards the new economy: the intangible economy.

## 2. THE INTANGIBLE ECONOMY

The end calls for a new beginning!

World is dominated by the power of the mind. We live in an information era, in an economic environment based on knowledge, in a global network society. The industrial era is over, and knowledge claims its right in the intangible economy.

Considering that information is the key resource of a company, the strategies adopted by managers have to allow the transition from the industrial organization, where everything is measured in terms of physical and financial assets, to the knowledge-based organization. The old battles for natural resources are still under way, and to these there add the new battles pursued in order to attract talented people and to explore the power of the brains, and their result is decisive for seeing the direction towards which the scale of the power is inclined. Organizational culture must embrace creation, innovation, transfer, and the reuse of information and knowledge, and the accounting system should allow reflecting all these transformations.

In the context of the current economic crisis, managers should focus on the effective usage of the intellectual capital, a latent source of value creation. Now when the developed economies face a recession wave, old questions regarding the nature and support of value creation by the company are asked again. In the past, these questions have received an answer through investments in physical assets. Today, the same questions are answered through investments in non-physical assets, and intellectual capital is the currency of the new millennium.

In order to use as efficiently as possible the intangible assets as new engines that create welfare in a society based on knowledge, we should move away as much as possible from the old

engines of the industrial economy, which, in their turn, have replaced those of the agricultural economy.

We live in a society of knowledge, where competitiveness depends on the efficient and effective management of intangible capital, knowledge meaning in itself power; the economic environment is under continuous transformation, as the economic crisis in the last two years has led to an analysis of the role of accounting as a universal business language. Non-physical assets account for over 70% of the total assets of companies; the prediction of the risk of bankruptcy based on financial and non-financial indicators is the *sine qua non* condition for preventing the appearance of financial debt, which would inevitably lead to suffocating the commercial channels.

Intangible resources and intellectual capital are essential conditions for a sustainable competitive advantage and for long-term development. The new economy requires the transformation of the traditional accounting system, and new methods to measure both tangible and intangible assets.

Accounting has to give up the ancient measuring and evaluation methods, as reserve in acknowledging and exploiting the intangible side of the business becomes an obstacle to increasing the performance of the organization.

### **3. THE PLACE OF ACCOUNTING IN THE CURRENT ECONOMIC CONTEXT**

Is accounting “Achilles’ heel” of economic stability? How much of the guilt can be attributed to the discipline we serve? Many opinions claim that the world crisis was determined by a lack of confidence in the financial statements, as well as by the great economic scandals. However, neither creative accounting from the period of the economic boom, nor the great frauds, which have shaken the financial system, are the real causes of the current problems, but the natural consequences of the pressure exerted by the market upon the companies (de Soto, 2010). Accounting is the universal language of business. Adopting the International Accounting Standards has meant giving up the traditional principle of prudence in favor of the principle of the just value in the evaluation of assets, especially of the financial ones.

The main role in approaching the principle of prudence is played by investment brokers and, generally, by all the actors interested in “inflating” the net accounting value up to the level of the just value, resulting in artificial raises of the asset value. The purpose of accounting is not to reflect an assumed just (subjective) value in order to obtain a faithful image of the performance of the company, but to allow making prudent decisions and to prevent capital consumption. The guilt of accounting is that it gave up prudence to reflect a volatile value, a market value, often determined subjectively, requiring managers to take risks of unknown dimensions.

Then, is giving up the just value a possible solution to the economic crisis? Great problems require radical solutions. The problem of the just value will receive as an answer both favorable and unfavorable arguments. The seismic shock caused by the crisis has a scope that is difficult to fix between safe pins. It is hard to believe that going back to prudence is the solution...

#### **4. REORGANIZATION – A SOLUTION TO THE GLOBAL CRISIS**

In the economy of the new millennium, there can be seen an intensification of the rhythm in which the reorganization processes take place. In this context, it is necessary to stress the modeling processes based on typological structures of the relations that are established both between the companies already existent on the market, and within the same company, between those who make business work. Organizational reconfiguration develops lengthy approaches in the market mechanisms and is a process that allows the company to continue its activity more efficiently and effectively, in an economic environment characterized by permanent change.

Perhaps the only way to survive in the chaos generated by the economic crisis is rethinking the organization processes both internally and externally. In the conditions of a lack of crediting, of the limited number of customers, of burdening taxation, of highly diminished export activities, reorganization is a solution to the current economical and financial problems. We can consider the reorganization process as a catalyst for optimizing the business processes, since it allows new collaborating methods. Reorganization can concern a merger process or a remodeling of the existent organizational processes.

As time passes, technological progress requires an adaptation to the new environmental conditions (economic, social, human). Just like a chameleon, the national economic environmental could fit the world-level tendencies: small and medium enterprises will be able to survive by combining their material and financial resources, through collaboration projects and mergers.

Mergers and acquisitions (M&A) are, nowadays, frequent events in organizational life. The two terms are normally used alternatively in strategic investment decisions, requiring a distinction between the two notions. Mergers imply two entities of relatively equal size, which create a new organization by combining the best in both entities. An acquisition is a process much easier to achieve, supposing the development of an already existing company through its combination with a much smaller one.

In the current landscape of the business environment, where the great swallow the small and the weak allow themselves to be bought by the strong, there appears the opportunity to acquire prestigious companies at a reasonable price. Whoever has money can buy good business at a price equivalent to 25% of the amount they would have paid before, as the merger represents a solution to

the lack of liquidity. In the context of the world economic crisis, mergers become a necessity, not a luxury.

As the economic crisis deepens, financial markets are subject to a volatile and insecure environment, entering a vicious circle of paying their debts by selling their assets and lowering prices. This situation leads to an increase in the number of mergers and acquisitions worldwide. The M&A activity is one of the solutions that governments may use in the current context. The year 2009 has been characterized by the reduction of giant offers, smaller offers being encouraged, so that very large companies have acquired their competitors weakened by the collapse of the credit market (Ravichandran, 2009).

There are numerous causes for which a company chooses to merge or to acquire another company. These reasons span from considering mergers and acquisitions as a motivated implementation of strategic decisions, to volatile dispositions and selfish manifestations of the management of the organizations with a very good financial position.

We can state that Romania is still in an incipient stage in what concerns mergers and acquisitions. During financial crisis, the number of mergers and acquisitions in Romania has increased considerably in comparison with the 10 years before the crisis, while in other European countries (Great Britain, France, Germany, Italy, Croatia, Bulgaria, the Czech Republic, Hungary, Poland, Greece) the number of mergers and acquisitions has not altered (Cernat-Gruici, Constantin and Iamandi, 2010).

On the other hand, companies have another option that allows them to survive in the current economic environment. Companies should focus on a rigorous process of internal reorganization. *Business process reengineering/redesign* is a new management approach that aims to obtain benefits by increasing the efficiency and effectiveness of the business processes that exist within an organization or between different interacting organizations. The *reengineering* process is likened to “old wine in new bottles”, and this plastic comparison seizes the essence of this concept (Weicher, 1995).

The term *reengineering* or *business process reengineering* can be defined as a radical redesign of organizational processes in order to obtain major improvements, such as: reducing the work time, decreasing costs, improving quality.

This method is used in change management, applied in organizations where the pressures of the external environment impose them to change, in the direction of a radical improvement of their performance. This approach places the accent on the diagnosis of the current situation and determines the ways through which performance can be improved. More concretely, the improvements consisted in a careful and minute revision and reorganization of the processes, structures, and technologies.



*Business reengineering* means starting all over again, from the basis, changing in a fundamental, radical, and spectacular manner.

A *business-reengineering* situation could be as follows: company X ranks second in the world in siderurgy; it closes down but does not fire its staff. It sells all its fixed means and retrain its entire personnel. It buys other fixed means, and after a year it reopens and, shortly, it ranks first in the world in marine drilling.

Renunciation of the old ways of “making more with less” is a first step, but organizational reconfiguration is more ambitious than a simple reorganization. It does not mean an improvement of the existing processes, but giving them up and replacing them with new elements (Tabără, 2006, p.382).

The causes of the world crisis are multiple and complex. Solutions to the current economic crash cannot be found through cause and effect analyses. The crisis can be attenuated by correcting the factors that have triggered it, but it cannot be completely eradicated.

“The financial schizophrenia”, generated by the fact that monetary institutions set two disjunctive objectives – reducing inflation and injecting the necessary liquidity into the economy – requires finding immediate solutions that would ensure the continuity of the company’s activity. In our opinion, a compromise solution to the insecurity of the business environment is merging with other companies.

## 5. CONCLUSION

In the new economy, the success of a company no longer depends on the production factors and on financial capital, but it is ever more conditioned by immaterial, intangible values, known as non-physical assets. But although the business world has suffered significant mutations in time, the accounting system is still dominated by traditional production factors, ignoring the importance of knowledge as a production factor and as an element of the financial health of the organization. Knowledge is not subject to the traditional economic laws: if most physical assets depreciate and lose value as a result of their usage in the economic activity, the use/reuse of intangible assets increases their value.

The current economic situation generates new opportunities for those who will know how to capitalize on them best. The “typhoon” that is shaking the present world economy strongly affects the business environment. For a business, the efficient and timely management of the disorders caused by the crisis may make the difference between bankruptcy and survival.

In conclusion, the only way to survive is to rethink the organizing processes both internally and externally. In the context of the lack of crediting, of the low number of clients, of pressing

taxation, of long diminished export operations, reorganization is a solution to the current economical-financial problems. The complexity of the events prevents us from considering reorganization as the only answer to all problems. There is no universally applicable solution. Each company must calculate its costs in order to see which scenario fits it.

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# A HAYEKIAN VIEW ON EUROPEAN UNION

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**Abstract:** *The aim of this paper is to develop some general Hayek’s ideas on the European project. Hayek demonstrated and analyzed the presence of two types of social order - a spontaneous order and a built one. Spontaneous order is a feature of society and economic development around a principle of human action coordinator. European project represents the spontaneous order through the founding principles of the four freedoms - free movement of persons, goods, services and capital. With many regulations, bureaucracy, this order is closer to the order constructed by that social engineering. Following Hayek’s ideas I tried to emphasize some issues at European level and to achieve a correlation with the european reality and Hayekian theory.*

**Keywords:** spontaneous order, rule of law, freedom, institutions

**JEL classification:** H11, N44, O21, O43

## 1. INTRODUCTION

Europe will not be created from nothing and will not be a “building”, it will be done through concrete achievements ..." said Robert Schuman on 9 of May 1950, but how are the European States after more than half of century?

European Union enlargement means profound transformation of policies, economy and society across Europe. In fundamental, the entire building - with its American pedigree on origin - is the result of European government regulations. Despite numerous economic arguments which are cited in support of European integration, the source of the European project are par excellence a political one. At the beginning, the energies were animated by the need for integration of building a counterweight to political power by American "imperialism" and East Asian boom and then the economic dimension took more importance.

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The evolution of the European Union during the time was to gain increasing proportion, to involve more instruments, but it deals with some problems. Maintaining such a great “building” involves political debates to train as many entities, to converge different opinions.

As George Orwell said that “in times of universal lies, telling the truth is a revolutionary act”, the fundamental problems facing Europe today are the lack of European identity building, the lack of a common coherent political view, lack of transparency and closeness to citizens.

The concept of Europe is our focus today as the idea of European Union, which add in almost all states of the continent. However, in view of its development, a legitimate question that arises is how united are these states of Europe? What is the foundation on which we have to build from now on?

## **2. CONTROVERSIES FEDERALISM / FUNCTIONALISM**

It is known that the European Union has been created "top down" and not vice versa as was natural. It was a debate among elites and not a necessity at the middle class or lower.

European federalism, inspired by the Christian democratic tradition and experience of German represents the federalism through integration. Maurice Duverger proposes a new type of Europeans federalism, based on double nature of the whole to be organized and respecting the principle of dual legitimacy. (Duverger, 1999, p. 95-100)

After Haga Congress of 1984, United Kingdom, France, Holland, Belgium and Luxembourg formed the “Permanent Committee for Study and Development of European Federation”. The negotiations that were held were dominated by two fundamental current: supranational method supported by the French and the intergovernmental method, promoted by the British. The result was the creation of the Council of Europe, which represented a compromise between intergovernmental and supranational. Since then, supporters of the two methods have entered the competition. European integration has evolved through a process of conflict focused on the supranational-intergovernmental line.

To integrate by economics, with small steps, is the essence of functionalist method. The European project is a political project in which economics plays the role of a simple tool.

In present, the dispute is not between functionalism (economic integration) and federalism (political integration), because integration is a fact already accomplished, but between federalism and intergovernmental cooperation. Whatever one says, the European federal model cannot copy the German or American federal model, simply because the place and time is not the right one. European Federalism can take some elements from the two other historical experiences, but the final product will be different. Best source of inspiration is American federalism, but the political

design will be different. The American states were very young when they federated (or even a century of historical existence). By comparison, some European countries have a historical and a half millennium (UK, France), have traditions for over two millennia of civilizations (Greece, Italy). Another factor to take into account is the cultural difference. Thus, while American and the German federation comprise a single nation, the Americans respectively, the Germans, European federation will not meet the European people, each nation keeping its own cultural identity. Europe will not affect the quality of quality French or Italian, but the contrary.

The debate on the future of Europe has put in front of the two rival theories: intergovernmental cooperation vs. federalism.

An European thought should bring a desire to act likewise. Thus European institutions and European mechanisms should be corrected in the idea of increasing transparency in decision making. A citizen needs to know what the mechanisms of this entity are, has to participate in decision making. Current bureaucracy in the European institutions is an impediment to integration transparencies.

### **3. HAYEKIAN APPROACH TO THE INTEGRATION**

Europeans, especially European politicians have been warning of Hayek since 1944, that the old continent is already "on the road to serfdom." Release the illusion of Communism, enthusiastic Europeans "fell into the arms" of the new utopia that promises a harmonious combination of capitalism and socialism. The only practical and realistic way to improve their standard of living is the total abolition of central planning institutions, elimination of price controls, wages, exchange rates and external trade control.

In Hayek's work, essential is the rule of law. A company is not governed by the discretion of state power, but by the legitimate power of the law, mostly in developed as an evolutionary and not a statutory right, not a system built by state law, but a system of rules codifying the individual's informal conventions. Unfortunately, the European conductor's motto seems to be that "everything what is not allowed is forbidden", unlike the economic system characteristic of the Anglo-Saxon "everything what is not forbidden is allowed". This explains why regulation, liberalization and privatization have occurred in Great Britain and U.S. long before European countries.

Hayek's sense of freedom is rather negative, man should not be the subject of restrictions or coercion, it has to have "respect for the individual as a person, the recognition of its views and values within its own criteria, the belief that it is desirable for people to cultivate their individual talents and inclinations."(Hayek, 2006, p. 25)

Common ideal of European civilization before the First World War was abandoned by cultivation in some of those ideas that led to the overthrow of the existing socialist order, resulting in splitting Europe into friendly and enemy states. Hayek also details the hidden character of the socialist discourse of freedom, namely that sense of identification, of confusion of freedom with power or wealth, people requiring certain priorities, value judgments and decisions. Thus, the planner or agent violates individual liberty, because “in any system that could be rationally justified, the state would not simply accept to do nothing. To be effective, a competition-based system has need as any other system of a legal framework designed intelligently and continuously adapted to reality.” (Hayek, 1998, p. 51)

Wherever private property is not a right itself but must fulfill a social function, changes in legislation of the legal system and economic freedom is conditioned by social justice and public decisions that take precedence over private ones.

Although the European project has been much debate between supporters and advocates of federalism, functionalism, European politics and European Constitutional Treaty is not the expression either of the two founding vision of the European Union, but resultant of an intergovernmental pragmatic which tends to generalize political practice and economic systems existing in the major European Union countries.

To achieve the same result for different people (and Europeans are different in many ways: culturally, socially, economically), it should be treated differently, as Adam Smith says that “*The man of system, on the contrary, is apt to be very wise in his own conceit; and is often so enamored with the supposed beauty of his own ideal plan of government, that he cannot suffer the smallest deviation from any part of it. He goes on to establish it completely and in all its parts, without any regard either to the great interests, or to the strong prejudices which may oppose it. He seems to imagine that he can arrange the different members of a great society with as much ease as the hand arranges the different pieces upon a chess-board. He does not consider that the pieces upon the chess-board have no other principle of motion besides that which the hand impresses upon them; but that, in the great chess-board of human society, every single piece has a principle of motion of its own, altogether different from that which the legislature might cause to impress upon it. If those two principles coincide and act in the same direction, the game of human society will go on easily and harmoniously, and is very likely to be happy and successful. If they are opposite or different, the game will go on miserably, and the society must be at all times in the highest degree of disorder.*”(Smith, p. 212)

The state should limit itself to the establishment of rules that apply to general types of situations and to allow individual’s freedom, because only individuals involved in a particular situation may be fully aware and adapt their actions in specific circumstances.

Only conditions should be established using available resources, leaving it to individuals about the purposes for which the decision is to be used, “individuals themselves can plan with tremendous success.” (Hayek, 1990, p. 47)

Solid free-market institutions have not developed themselves as a deliberate project of a person or group of persons, but as expressions of the routines and rules, rules of participants in social and economic life, subjected to competition and refined over time through trial and error. Hayek said that as nobody has designed languages, no one designed the international trade mechanism.

Globalization limits arbitrary policies and intervention of governments as increasing the degree of liberalization of trade, direct investments and financial transactions. Companies and investors can avoid fiscal constraints and bureaucratic measures by moving activity to countries with liberal economic policies. But that choice is limited by transport costs, transaction costs and cultural differences. To think that economic spaces are completely permeable, means to transpose the model of “nirvana economicus” in reality and that is impossible. Although the global order has become the natural order of affairs, we cannot say that time and space have been compressed and from everywhere on the globe we can ever make any transaction. (Erhan, 2003, p. 35)

The bureaucracy has developed certain forms of hierarchical coordination and administrative harmonization in almost every area of public policy. Enactment of the approximately 97 000 pages of European Union legislation means import of institutions, administrative structures, practices and economic policies. The Communitarian Acquis best illustrates how law became an instrument of government. The draft of European Constitution (the longest and most politicized constitution of all time - 270 pages towards 17 pages of the U.S. Constitution), is a clear example of European centralism.

Europeans seem to have accepted the “European democracy”, without being closely examined the economic implications. Not only have underestimated the historical and cultural differences between European countries, but they ignored also the real benefits of competition between independent political structures. On long term Europeans prosperity is incompatible with centralization of politic and economic decision-making process in the hands of political bureaucracy in Brussels, in a constructivist vision of a rationally planned society.

We have to leave aside ethnic differences, national character of each, the prejudices of collective mentality, and then is promising that we will live forever in peace, in complete happiness. Vladimir Bukovsky, an euro-realist, says that exact opposite will happen. After those 73 years of living together of the nations which were expected to form the harmony of the Soviet Union, there were several ethnic conflicts than any other country in the world.

The problem with the European Union is that we all may be buried under its ruins in an economic catastrophe and ethnic issues as complicated as those of the Balkans, and to change this situation will need at least a generation. (Bukovski, 2006, p.153)

#### 4. CONCLUSIONS

The future is open and everything can happen in Europe but the way of the bureaucracy is inadmissible. A society characterized by the presence of one of authoritarian or totalitarian forms of government or through some form of social control or oppression... I don't think that scenario would be right for Europe.

A complex society requires and needs simple rules and these rules must be only general rules. The individuals themselves, through trial and error will be able to act in particular situations.

Europe is far from being a Europe of Europeans, where the rule of law should govern. Europe is "a state of mind" and the best way seems to be a Hayekian, the commonly accepted rules let place for the spontaneous...

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# EURO ADOPTION: IS IT REVERSIBLE?

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**Abstract:** *Starting from 1999 sixteen countries have adopted euro as a single currency. Considering that the Maastricht Treaty stipulates that all the European Union countries must adopt euro once they meet the requirements stipulated it is not a question of “if to join the euro area”, but rather of “when”. Therefore adopting euro currency is not and it should not be a reversible process. The decision to participate the monetary union represents the expression of a decision to move forward, while leaving it would be nothing else but a step back.*

**Keywords:** euro, reversibility, European Union, euro area, European Central Bank, Maastricht Treaty

**JEL Classification:** E58, F36

My answer is: no. Three years ago, when I have done my first research on euro area, this question would have seemed inappropriate. Now, taking into consideration the fact that important economists foresee the end of euro, this subject stirred my interest. The result of multiple lectures only strengthen my belief that euro exit is not a desirable option.

Considering their complexity, I can say that currency unions are mysterious phenomena. For many years, countries have made sustainable efforts to participate to such a union, participation that promised many benefits. Thus it has been developed a vast literature regarding the reasons for joining a currency area. Less interest has been given to causes that made the countries leave currency unions. And the number of countries that acted so after the World War II was not quite negligible.

Recently, the issue of exiting a currency union and even the total disintegration of it came back, right after the current financial crisis strongly affected the euro area.

Opinions regarding the viability of European Monetary Union had been formulated even before the introduction of the single currency. Before 1999, many economists sustained the fact that

the stability and viability of a currency area can be fulfilled only if they are joined by greater economic flexibility and deep political unification.

Despite the critics, on 1 January 1999, eleven countries abandoned their national currencies and adopted euro as the single currency. Ten years later, this became the common currency of sixteen member countries of the European Union. According to the Maastricht Treaty, all the European Union countries must adopt euro once they meet the requirements stipulated. Thus, it is not a question of if to join the euro area, but rather of when.

The anniversary of ten years of euro led to the publishing of many working papers that showed that euro area proved to be a success. Monetary stability is the main advantage brought about by the monetary union, the inflation rate ranging across 2% in 1999-2007. The public finances situation has also improved, with the member countries being very close to the reference limits. Until the end of 2008, public deficit has been under the maximum value of 3 percent of GDP, while public debt had superior values, but close to the reference of 60 percent of GDP. Between 2005 and 2008, employment rate reduced significantly in euro area thanks to the numerous reforms implemented. Economic growth improved by the end of 2007.

Considering all this advantages, adopting euro became easily a desideratum for all the countries that were struggling to achieve the convergence criteria. Euro area promised to offer stability and economic development to the new member states.

The current financial crisis showed that there were problems inside the European Monetary Union, which fact determined the increase of uncertainties regarding euro's ability to survive. The main culpable country this is Greece, who's fiscal problems where intensely debated.

In October 2009, after the Greek elections, the public deficit announced by the new government was 12 percent of GDP, significantly higher than the one previously promised to the European Commission at the beginning of 2009, of 3.7 percent of GDP. The budgetary problems of Greece are mainly cause by the high entitlement and age related expenditure, the poor tax administration and a bloated public sector.

To confront the huge imbalances, the Greek state received a package worth of 110 billion euro from IMF and other countries from the union. In exchange, the government signed a severe program to reduce the expenses and increase the taxes.

By hiding the real situation of public deficit, Greece showed an irresponsible behavior. The fact that it belongs to a currency union forces it to make efforts for maintaining a discipline of public finances; otherwise a systemic risk might appear. Such a behavior was anticipated and preventing measures had been adopted by introducing clauses in the Maastricht Treaty. Thus, it appeared the "no bail out" clause that interdicts interventions from European Central Bank for

helping a state facing bankruptcy and it was created the Growth and Stability Pact which has the role of supervising countries that have a budgetary and fiscal negligence.

Even so, it appears that the Hellenic state ignored the requirements that should have been respected; therefore it is easy to understand why some of the other member countries would want it leaving the euro area. But the question can be asked whether or not for a small economy like the Greek, being outside the union would be better. Again, the answer is no. And that is because, for a country with fiscal weaknesses inside the union is better than outside of it.

The only argument for exiting the euro area would be that introducing a new national currency can lead to a nominal and real depreciation and, indirectly, to an increase of competitiveness, that is more than welcomed. But this favorable situation has weak chances of lasting. Rigidities from small economies like Greece are real, not nominal as it would be needed in order for a depreciation of exchange rate to have a durable impact on real competitiveness.

It is important to mention that depreciation will lead to an increase in real terms of public debt which would mean an impossibility to refund the debt; both options being costly for the government and population.

The argument for leaving the euro area omits the fact that the financial environment changed drastically in the last two decades. In a regime where capitals are free, abandoning euro will trigger massive capital withdrawal that will undermine the stability of the economy. The new currency will be under a speculative pressure, generated by financial markets. The authorities will have to increase interest rates or to let the currency depreciate.

At the same time, repercussions of euro exit on the relations with other EU partner countries will be countless. Besides the potential protectionist reactions and the destabilizing impact on single market, a euro exit can be seen as sign to leave the European Union. A country that unilaterally abandons the single currency to benefit from a competitive advantage will jeopardize its status as a member of the European Union. Lisbon Treaty contains a clause about EU exiting but none referring to euro.

Abandoning the single currency by Greece has multiple negative effects on it, but it can't lead to the total disintegration of the euro area. In my opinion, a stronger threat comes from the countries with a good fiscal position, like Germany, which might decide to leave the union, unwilling to become the rescuer for those countries that are fiscally insolvent.

Problems faced by Greece represented a good opportunity for Professor Martin Feldstein from Harvard University, one euro-skeptic, to bring up the fragility of euro area. Thus, analyzing the imbalances in Greece, he proposed the solution of euro exiting. He was contradicted by his former student, Charles Wyplosz who rejects this idea, considering that abandoning euro will bring a total

collapse to the Greek economy. Taking into consideration the reasons mentioned in the previous paragraphs, I tend to agree with Wyplosz's opinion.

I consider that the best argued opinion regarding euro's future is that of Barry Eichengreen, who argues that joining euro is irreversible, invoking the numerous costs imposed by leaving it. A first factor supporting the idea is represented by the economic costs involved by the single currency abandon. A second reason for which members should not leave the euro area is the one related to political costs. The country that revokes its commitment risks disputes with the partners.

Nevertheless, the most important cost is not economical, nor political, is procedural. Reintroducing national currencies makes necessary the redenomination of all contracts in national currency. To assure a well functioning system, the euro abandon must be joined by a detailed planning, a planning very similar to the one that took place before the physical introduction of euro. Computers will have to be reprogrammed; vending machines will have to be modified and the list could such go on.

I agree with the arguments formulated by Eichengreen, because the introduction of a new currency is costly regarding time and trust. This would begin with the inevitable and complex political discussions that would join any decision to make such a move which would affect negatively the trust and ultimately, the real economy. A new currency would need to be printed and brought into circulation, an action which could not be completed overnight.

The future of euro was also analyzed by the Nobel laureate, Paul Krugman, who agrees with Eichengreen opinion. Even though he considers that the fundamental problem of European monetary integration is the belief that Europe can maintain the currency functional despite the strong reasons that showed that it was not prepared, he upholds that reintroducing national currency would do nothing else but trigger the most difficult of all financial crises. To make the future functioning of euro currency possible, what Europe needs is a stronger political integration, bringing the member states closer to the American model.

I therefore consider Krugman's argument to be adequate taking into consideration the fact that, while the negative effects of the financial crises on euro area are known and there are numerous solutions for them, the consequences of abandoning euro still remain under uncertainty, bearing the risk of being much higher.

The irreversibility of adopting euro is further sustained by yet another Nobel laureate, the economist Joseph Stiglitz, who considers that the countries in the euro area have all the chances of surpassing the crisis. Accordingly, the euro will survive, regardless the fact that economic development will be affected by the reduction of public expenses and by taxes growth.

The previous opinions only emphasize the idea that, similar to the period before euro introduction, there are economists who sustain the monetary union and economist who continue to

have a dose of skepticism about its future. Launching an idea such as renouncing the euro represents, in my vision, a forced action driven rather by an impulsive reaction than being a result of logical reasoning.

But what is the ECB opinion regarding euro exit? As you may assume, this opinion has a strong note of subjectivism. ECB considers euro adoption to be an irreversible process, which would require a careful preparation. Creating a monetary union in Europe was a historical moment, when all members of the euro area took the commitment to communicate and to take the best measures for their individual and common good.

Under a legal approach, according to Maastricht Treaty, euro adoption was and it is an irreversible step. Article 4(2) refers to the irrevocable fixing of exchange rates that leads to the introduction of a single currency and article 123(4) refers to the exchange rates to which the currencies will be irrevocably settled.

The president of ECB, Jean Claude Trichet, has the mission of finding solutions for assuring the euro area's stability, fact that has been achieved from the beginning of the first negative effects of the crisis. Firmly, he always qualified as absurd the speculations regarding euro abandoning.

The decision of leaving the euro area can be regarded through a cost-benefit analysis. The most important reason for exiting euro area is given by the belief that it will trigger the depreciation of the new created currency as an attempt to regain the lost competitiveness. However, for many reasons, such a move would have unwanted results, different from its own political interests. Thus, while the main advantage is questioned, there is no doubt regarding the significant costs that returning to the national currency will bring.

In my opinion, European monetary union should be regarded as a "club" where the members are equal and work for a common goal: monetary stability. I admit the fact that the ideal of such a "club" might have been unbalanced by the financial crisis, but we should not forget the enormous efforts that had been implied by the creation of such a monetary union in Europe. Membership to such a "club" promised protection against financial problems which should be obtained by rigorous behavior and mutual help. Even though the treaty specifies that members are not responsible for others public debt, there is an implicit commitment to offer urgency help. Leaving euro area can lead only to marginalization of the state because, unlike the joining process, this is not sustained by the other member states.

Adopting euro currency is not and it should not be a reversible process. The decision to participate the monetary union represents the expression of a decision to move forward, while leaving it would be nothing else but a step back.

# PROBLEMS AND COSTS OF THE EUROPEAN UNION EXPANSION WITH OVER 27 STATES

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**Abstract:** *Once on his way to enlargement, the European Union has taken a road of no return. History has shown that all candidate countries have become a point of EU Member States. The question thus is not where you go to the European Union enlargement, but how it will look after the enlargement of the Union politically, economically and socially. The objective of this paper is to analyze potential problems and costs of enlargement beyond the 27 states. Thus, we performed an analysis on the implications of enlargement to the Balkans to Asia Minor and even to the former Soviet bloc countries.*

**Keywords:** EU enlargement candidate countries, potential candidate countries, the Balkans, Turkey.

**JEL Classification:** Y80

## 1. INTRODUCTION

"The relationship between the EU and its citizens may seem complicated. From daily experience we can say that it is very simple. EU serves its citizens and its aim is to meet the needs and concerns." (Margot Wallstrom, European Commission Vice-President).

This paper aims to reflect on a future EU enlargement in terms of costs and problems that it could rise. With the purpose to analyze the potential costs and problems of EU enlargement, the paper examines the economic, social and political candidates and potential candidates, going even further with the reasoning for such states as Russia, Belarus or North Africa. European Union's motto is "United in diversity". A unified, even at the level of institutions, people with history, language, traditions, different cultures, has been a considerable effort and a goal to meet necessities for a world in constant motion, with nearly exhausted resource, which must begin function as a whole to face the future. Integration has become such an active and reflective process that involves the inclusion of parts into a whole, and its harmonization with the incorporation of overall vision. The European Union is a unique social and economic partnership between 27 democratic

European countries, whose objectives are: peace, prosperity and freedom for the 495 million citizens with a safer and fairer world.

## **2. OVERVIEW OF THE PROCESS OF ENLARGEMENT OF THE EUROPEAN UNION**

Where will stop EU enlargement? This question is especially relevant as the European Union was created to expand, it is open to all democratic European states that are able to cope with economic challenges that would involve a possible membership and are willing to learn the rules that govern the European Union. European countries have in turn expressed a desire to be part of this great European family share the same values and objectives as democracy, prosperity and freedom. EU enlargement, especially to the east, is reconciliation with Eastern Europe especially after the events after the Second World War and after the Cold War (Kok, 2003).

This enlargement of the Union's former communist states was the largest action taken in this respect by the pan-European forum. Thus, in just three years, the European Union expanded from 15 to 27 countries. A future expansion, but with over 27 countries is as problematic as it would take place in a time when the European Union is facing major challenges in terms of its economic performance, internal cohesion and its external role. The global economy of the European Union and its Member States are going through difficult times. With the crisis of 2008, states that are part of the EU are in economic decline, growing unemployment, social unrest. Also, the target set by the Lisbon Strategy, of making Europe the most dynamic and competitive knowledge-based economy in the world was not carried out. International business world today is faced with two realities: globalization and change. So the world is not waiting for us, and the European Union must face a world of increasingly globalized and dynamic. Thus it must consider in the process of expanding both states have already acquired the status of candidate countries and of the potential candidate countries. But not only the candidate must be prepared to be part of the European Union but the EU must be 100% ready to accept them. (Full, 2010)

Thus, we should not ask whether the EU will be extended or not, because that decision was already taken, but we wonder when this process will take place as the European Union will certainly decide that it is beneficial when the balance will tilt in favor of benefits at the expense of risk. Expansion is unlikely to be achieved soon, and this is due only to a certain degree of incompatibility that exists between European standards and the realities of potential member states. The European Union must first regain her stability, because only a few years and has doubled the number of members. Then, the criteria by which the European Union analyze the benefits and risks no longer the same in 90 years. Need to start with the interests of each Member State to merge

into a general interest of the European Union, and this seems to be increasingly difficult, sitting last show went through difficult times in the last five years the European Union: the ratification Member States of the European Constitution and the Treaty of Lisbon.

Union has already decided that the eastward expansion has not ended with the accession of Romania and Bulgaria in 2007. Thus, there are currently four states that have applied and been accepted to become the official candidate countries and it is Iceland, Croatia, Turkey and the Former Yugoslav Republic of Macedonia, and in addition there was also so-called potential candidate, enrolling in this class states like Albania, Bosnia-Herzegovina, Montenegro, Serbia and Kosovo. But Turkey is seen by many as an outsider because it is deemed incompatible with the values of Western cultures, although they are fundamental principles by which the Union was built. Although Turkey has made many advances, any realistic prognosis on EU membership can not be optimistic. Croatia, although negotiations began in 2004, seems to have more opportunity in the rapid accession than Turkey, this being due to the good political and economic reforms.

Moving eastward, it is currently difficult to identify a potential future member of the Union, after the current candidate and potential candidate countries have acceded (Pop & Gherghina, 2007, p. 53). Ukraine's candidacy was rejected by the European Commission due to extensive corruption within state institutions and because of political instability. Moldova is far from what we might call a real democracy. In addition, there are pressing economic problems and the unresolved problem of Transnistria. Only Caucasus states seem to have a chance of being considered for expansion in the near future due to high economic potential, but in this region there are security concerns. With this European Union states cooperating in various fields, "Belarus is too authoritarian, Moldova too poor, Ukraine and Russia too large for the European Union too scary to contemplate any offering membership time soon." (The Economist, 2004).

During the following sections we try to report some of the features of the candidate and potential candidate countries and the implications that would bring these countries to EU accession.

### **3. PROBLEMS AND RISKS OF THE EUROPEAN UNION EXPANSION WITH TURKEY**

Turkey has a long history with Europe and the European Union alongside the default. The beginnings of its participation on the international stage are given the time it entered the North Atlantic Treaty Organization, namely in 1952. It can be considered the first step towards the European acceptance and was soon followed in 1959, Turkey trying to get into what we now call the European Union, the European Economic Community (Hasan, 2010). In 1963 the signing of the Ankara Agreement, and thus Turkey became an associate member of the European Economic



Community. Although in 1987 he was refused membership of the European Union, Turkey continues to struggle to achieve this objective. From 1 January 1996 entered into force Turkey Customs Union - European Union, which Turkey has adapted its trade regime and other legislation important to what the European Union, becoming the only member country that has signed a Customs Union the EU. In this context, Turkey has eliminated tariff and non-tariff protection against the European Union for all goods covered by Customs Union, progressively align Common External Tariff of the European Union over the EU's preferential trade system with Free Trade Agreements with the third world countries. Only in 1999 in the Helsinki Summit, Turkey has moved from status associated to the candidate. This means that Turkey is headed, slowly but surely, at the rule of European Union member state.

The European Union has established numerous requirements that need to be met before accession. These requirements were established by the European Council meeting in Copenhagen, in 1993, which bears the generic name of the Copenhagen criteria. These relate to:

- Political criteria: the Member States should be democratic, to use the rule of law and respect human rights and protection of minorities;
- Economic criteria: the economy should be based on market principles, and should be able to cope with competitive pressure and market forces within the Union;
- The possibility to adopt the obligations of membership (community aquis): this refers to a detailed list of areas in fifteen EU policies.

The reports in recent years as both the European Commission and the European Parliament highlights Turkey's European vocation, progress, but made a series of recommendations along the way showing they still have to go state.

A first breakthrough was achieved by Turkey signed the protocol extending the Customs Union with ten Member States in 2004, meaning here Cyprus. Although this step, the Cyprus problem is far from being solved, because customs does not involve signing and formal recognition of Cyprus, Turkey continues to deny the sea and air transport with the Greek flag on its territory (Burcioagă, 2006). In this regard, in 2005 Turkish Foreign Minister Abdullah Gul said: "There is an EU member that does not recognize them. Appears in this context, a paradox of how States could be two states in conflict, to join the European Union. Javier Solana said that "If you want to become part of a family, you should recognize that family members institution, otherwise you can not become a member of that family" (Talmon, 2006).

In addition the Cypriot diferendum, distancing himself as still unsolved problem with Armenia. An important step was made by Turkish-Armenian Agreement signed in 2009 which led to the first result, opening of borders between the two countries. The main purpose of this agreement is to create a joint committee consisting of international experts, to elucidate the "size of

the historic" relations between the two countries. The historical diferendum which is based on the 1915 Armenian genocide issue is not recognized by Turkey. Recognition of past mistakes and crimes is undoubtedly a sign of maturity and democratic society, but it seems that Turkey has not reached this level. Recognition of the Armenian genocide should be a symbol of Turkey's willingness to break with his military past and to be recognized so that an effective democracy.

There is an undeniable progress that Turkey has made towards integration: changing some articles of the Constitution adopted in 1982 and human rights law. The pressure from the European Union, the constitution and amendments were made important strides which were made for eliminating some elements illiberal and undemocratic. The most important changes relate to the death penalty, authorization education in minority languages, new legislation on the Christian minority and expanding the scope of civil and political rights and freedoms (Gönenç, 2004).

From another point of view, scientists, more (Flam, 2003) argues that the most important reasons for refusing to negotiate EU membership for Turkey over the years were: implications of budgetary policy of this country because of the size and its cultural problem.

The French newspaper Le Figaro conducted a survey in the European Union citizens, in 2005, of which Europeans are more favorable reise entry of Ukraine into the European Union than Turkey (Mandeville, 2005). This public skepticism is shown in various reports of the European Union. Various reports of the Generalized Eurobarometer surveys in the European publics worry about Turkey's Accession.

Some Europeans have a problem with the fact that only 5% of Turkey's population is on the European continent, the remaining 95% being in Asia. For example, the former internal market commissioner Frits Bolkenstein said that "Europe is not a geographical but a cultural continent, and in this respect Turkey is another continent, who is in permanent contrast with Europe" and warned the European population, of Christian origin, that will be threatened with "Islam's entry into the European Union." Turkey's numerous accusations against him and respect minority rights and equality of citizens regardless of origin or religion. Thus, Turkish law to provide that access to public office need to have the Muslim religion and you change the name of Islamic terminology and religion is inscribed in Turkish passport. Kurdish oppression is still ongoing, standing evidence that Kurdish television transmits only in Belgium, and of this state has often been pressured to close this post. An example of violation of rights of the minority is the fact that the former Kurdish deputy Leyla Zana was sentenced to fifteen years in prison because he spoke Kurdish at the inaugural ceremony of the Turkish Parliament in 1993.

It can not be denied the positive role played by Turkey during the Cold War, but the political context has changed dramatically. Today, the fight goes against another enemy, namely terrorism. In this context, Turkey's entry into the area of free movement provided by the Schengen

agreement brings uncertainty, taking into account that Turkey shares borders with countries like Syria, Iran, Iraq or Chechnya. Due to the fact, Turkey has become a transit country for immigrants who want to reach EU territory. In a study by Ahmet İçduygu, director of the Office of Migration Flows Investigation of Koç University in Istanbul showed that since 1990 the approximately one million people have crossed or tried to cross Turkey to Europe ajnge (El Periodico, 2008).

Other views consider that Turkey has a strong military tradition that is unable to establish a pure democracy in the country. Also, Europeans are scared of the poverty level in Turkey (Lee, 2004). For example three of the nineteen regions of Anatolia were the GDP of 7% and 16% of the average European. GDP level in the whole state is at about 30% of EU average in 2007 according to information provided by official website of the European Union.

In addition, it will feel the impact that the Turkey's European Union will have in the Common Agricultural Policy (CAP) due to its size and number of inhabitants. Further more, since a third of the Turkish workforce is employed in agriculture, it will take approximately 8.200 million for 2025 to launch programs for rural development (Duplancher, 2008). The impact it will have on the EU budget and the CAP are costs that the EU will have to assume.

Another problem that arises on the community balance is the fact that Turkey's national balance would break so frail and cause serious difficulties Member States. With a population of 72.5 million inhabitants (Eurostat, 2010), which doubled between 1960 and 1990 and will continue its growth as in 2015 reaching 100 million people, so one in five Europeans will be Turkish and Turkey will be one of the most important member of the European Union. Turkey Will Be a natural leader of Group Cohesion countries, with 14.2% of the total EU population, 11.2% of the seats in Parliament, 7.8% of the votes in the Council of Ministers, But only 3.0% of GDP (Paphre & Uçaray, 2005) Thus, Turkey will be represented in Parliament more than France or Germany, and the most important country in Europe will be a Muslim. These are considerations than the Europeans; the vast majority of Christians can not move and cause to be so critical of Turkey's accession.

That will take effect on the entire European Union. It will produce significant changes in all areas of the composition of the CAP budget, the policy mix of defence and foreign affairs and to the functioning mechanisms of the entire European Union's institutional system. Because the Islamic religion in this country there are many voices who refuse to accept a Muslim state. For example, Valery Giscard, former president of France says that "if a Muslim country like Turkey into the European Union will be the end of Europe." Angela Merkel before winning election and said she would do "everything it can to prevent Turkey's accession to the European Union."

However Turkey has made many improvements and reforms made so far should be continued and strengthened if we are to acceptance by the European forums. In this context, we wondered if

the Copenhagen criteria are an appropriate benchmark for assessing the relevance of the Turkish candidacy. Naturally, the phrase used by the European Commission considers that membership criteria is sufficient, leave open the possibility to interpret and shade responses.

Taken together, these reforms are unprecedented in Turkish society that tries to define its European orientation. They should not become mere surface commitments undertaken towards the European Union, but will be supported by a change in mindset and practices in the political class, the government and ordinary citizens.

#### **4. PROBLEMS AND RISKS OF EXPANSION OF EUROPEAN UNION MEMBER OF THE WESTERN BALKANS**

Besides Turkey, Western Balkan countries are now at the gates of the European Union and want a swift accession. To define the Balkans must first make it clear that part of Europe both geographically and on the cultural and political, that is located at the junction of Europe and Asia, it is a transit region and area encounter between people and cultures in the same position under the influence of the West and East. Western Balkans term was officially introduced into the vocabulary of the European Union at the European Council in Vienna in 1998 and initially covers five states, and in 2006 the states, namely: Albania, Bosnia-Herzegovina, Croatia, Macedonia, Serbia and Montenegro (La Documentation française, 2010).

The wars that led to the collapse of socialist Yugoslavia had serious consequences on economic and social impact on the entire region. Balkans after the fall of communism went through four wars that led to the destabilization of South-Eastern Europe and the European Union must take into account those previous to create a climate of peace and safety that is consistent with the values promoted by that. Thus, the current requirements of the European community refer primarily to the achievement of political and economic reforms, but also to take measures to maintain regional peace and stability. The European Union is the engine of political and economic transition process and guarantees not only continuity of the reforms started, but much needed peace and stability after years of war. The integration of this region in the European family is the perfection of a territorial unit to the north of the Mediterranean, but the Union's enlargement policy comes up against the inflexibility of the Community institutions and euro-skepticism among the population today, which began to manifest itself ever more strongly after two waves of EU enlargement has gone through in recent years. For the population of the Western Balkans, enlargement, however, hope to find a way to rapid economic growth and enable them to achieve a high level of life similar to existing EU states.

Referring to the economic parameters that characterize this region in 2000 to record a slight growth primarily based on consumption of households (Bilek et al., 2008). Thus, in 2008 GDP growth was 5.7%, the highest GDP growth was a Montenegrin, it amounted to 7%. However, in 2007 the average GDP of the Western Balkan countries represented only 20% of the EU-27 countries, with strong differences within the group. Thus, the leader of Croatia was an average of 54% of the EU average, while Albania is at the opposite end with an average of 24% (European Commission, 2009). With the outbreak of the global economic crisis, the Western Balkan countries are facing major economic problems facing extreme poverty and high unemployment in many of these states (expansion strategy in 2009 on the Western Balkan countries, Iceland and Turkey, 2009)

In terms of dividing the working population by sector in the developed countries of the European Union about 2-3% of active population engaged in agriculture, and approximately 70-75% in the tertiary sector. The Western Balkan countries but figures show that 25% of active population engaged in agriculture and only 50% in services. In this area, that the progress must stress Croatia in other Balkan countries, studies indicate that 10% of the working population is employed in agriculture and 65% in services. The contrast between the Western Balkans and EU member states indicates the disparity that exists between them and the fact that these countries must continue reforms started way to soon be able tends to join the European community.

A high importance has an unemployment rate that is observed in the Western Balkans. Thus, although there is a decrease in unemployment, it has high rates in the region, the lowest recorded unemployment rate in Croatia is more than 10% (Bilek et al., 2008). The highest unemployment rates recorded in the former Yugoslav Republic of Macedonia where the unemployment rate exceeds 30%. In addition to these states is worrying situation in Kosovo, where it reaches 40% (La Documentation française, 2010).

Another problem of the Balkan states is the rate of inflation. Thus, in 2008, in three of the six countries has been an inflation exceeded 10% and the highest values recorded in recent years. The largest increases in inflation occurred in the former Yugoslav Republic of Macedonia, Montenegro and Serbia. The year 2009 is expected that there will be a process of disinflation in Western Balkans, but this assumption was contradicted by the outbreak in the fourth quarter of 2008 economic crisis. In the context of increasing inflation in these countries, the Balkan Union demands the execution of monetary policy more stringent.

According to information provided by the European Barometer 2008, citizens of the European Union accession states in favor of the Western Balkan countries, as 49% percent of citizens are in favor of accession of Macedonia (36% against), 48% approve accession Bosnia Herzegovina (37% against), 47% said Serbia's EU entry (39% against) approved the accession of Croatia and 56%

(versus 30%). The only country to score a disadvantage is Albania, 44% of Europeans are against its membership, compared with 41% who are favorable.

An important aspect that should take into account those states for further EU enlargement to Western Balkans refers to full cooperation with International Criminal Tribunal for the former Yugoslavia. This stage is considered by the European Union as a fundamental to justice for victims, but also for regional reconciliation.

Among the Western Balkans, two countries that have candidate status and real opportunities to attendees in the near future the European Union, namely, Croatia and the former Yugoslav Republic of Macedonia. Thus, after thirteen years after the war ended nine years after achieving complete sovereignty, Croatia has a stable democracy with a functioning market economy. Croatia formally applied for the quality of being member of the European Union in 2003. However since 2001 the EU concluded a Stabilisation and Association Agreement which established rules that must be met by Croatia to join, including financial aid that will benefit this country (which in 2006 amounted only to 140 million) and technical assistance to be granted to meet the requirements for membership of the European Union.

Notifications most recent European Union indicates that there has been an improvement in Croatia's political system, a breakthrough in terms of human rights and minority protection, and improving economic prospects over the medium term, provided that the road continues started on the path of reform. It also has a vital importance to judicial reform and fight against corruption, both are essential to a democracy there may be a viable and healthy economy to attract foreign investment.

Croatia is the state which is most likely to join the European Union in 2011, showing Union is willing to expand to a second state in the former Yugoslavia. This is especially likely since the country has made progress in meeting various membership criteria, although it must be resolved before accession impediment represented by Croatian officers tried for war crimes in the conflict in former Yugoslavia. Another impediment was that on the existing diferendum with Slovenia on the border issue which was resolved by an agreement signed in 2009.

Because the standard of living and economic development went far beyond existing levels in Romania and Bulgaria would have to allow a rapid accession of Croatia to the European Union. But, the point to the fact That Corruption, judicial inefficiency and Organised Crime Serious Problems Remain in Bulgaria and Romania, two Balkan countries Other, Which Entered the EU in 2007. Croatia, too, has difficulties in tissue areas - one reason why negotiations Zagreb membership is taking longer than expected once (Barber, 2010). Acceptance of this state, however, was delayed and political reasons. Yet progress has been made to do so by stabilizing Bosnia-Herzegovina,

Montenegro's independence, the declaration of independence by Kosovo, Serbia closer to Europe and the teaching of Croatian war criminals to Hague.

Croatia could have some bad luck in his desires to join the European area. Although, it is better prepared than Romania and Bulgaria, it missed the 2007 integration due to historical causes. The European institutions insufficiently effective and low popularity, Brussels does not seem willing today to accepting other members, or at least in the short term, regardless of their performance. The current system works hard and with 27 members, and one more will not only bring new problems, so the Croats might have to wait for reforming European institutions to their formal acceptance. But in an increasingly prosperous country with an economy that still seems to work better than the average man is too concerned about exact date of entry into the European club. One can even say that in this country falls enthusiasm among the population regarding the EU accession. Thus, in 2005, 85% of the population wanted to join the European Union, now the percentage has dropped to only 34%. This change in attitude has occurred due to people facing financial crisis and Europe because of the inability expressed by the Community institutions to emerge from this crisis.

Relations between the former Yugoslav Republic of Macedonia and the EU are covered by the Stabilisation and Association Agreement that was signed in 2001 in Luxembourg. Commission documents draw attention to the need of improving further the legislative framework to permit decentralization of public administration. Macedonia is considered a successful example of cooperation of the international community, but must continue pressuring for normalizing the political situation there.

Former Yugoslav Republic of Macedonia benefits from substantial EU funds for mainly economic and social development (infrastructure projects, education and specialty programs) and programs relating to justice and home affairs (strengthening of border control, judicial reform and customs administration, organized crime and money laundering).

Unfortunately, the EU still lacks a clear strategy in terms of scale that will have no extension and analysis related to its short-term consequences (INTOSAI, 2006). On the one hand, it was recognized that an expansion into the Balkans would bring more stability of Europe, but still lacks a precise timetable of how the ongoing enlargement process. In addition, an appropriate adherence should be considered carefully because it could create adverse effects, making some candidate countries to adopt drastic reforms that are conditional accession, but will have the effect of destabilizing the region, if not done gradually and with the specificity and capacity for implementation.

Although the Western Balkan countries have carried out many reforms in May, can not be overlooked progress made so far. They have gone through a decade of wars and internal conflicts,

and prospects of accession are the best way to enhance regional stability and security in the interest of the entire European continent. Crime and corruption are still scattered throughout the region, but have made progress in the area through police and judicial cooperation. Continuing involvement of the European Union will help the region to solve the remaining problems, because the Union can not ignore what is happening around him and even if those countries are not yet in the European Union they are in Europe and Europe is not may look indifferent to the problems in the region. Enlargement has proven to be very effective in motivating countries to tackle problems of crime and corruption, and committing them to cooperate more closely with the European Union to protect citizens. Enlargement means that the candidate countries to adopt EU standards on border control and management of refugees and immigrants from third countries, therefore, the expansion will provide an opportunity to have more control over the problem of illegal immigration.

## **5. PROBLEMS AND COSTS OF THE EUROPEAN UNION EXPANSION WITH MORE THAN 35 COUNTRIES**

Certainly the process of enlargement will not stop Turkey and Western Balkan countries. Maybe in 2010, seems risky to speak of a future expansion to incorporate the European Union states Ukraine, Belarus, Moldova, Georgia or Russia, but does not mean that this would not be possible. Thus, many in the European Union accession states that Russia is excluded and this opinion is shared in Russia, but we should remember that decades ago few would have predicted the European Union accession countries like Romania or Bulgaria.

Ukraine began to make major steps toward a rapprochement with the European Union. Once emerged triumphant Orange Revolution, this gave legitimacy to the project's pro-european Victor Yushenko. This victory was a trimf values of liberal democracy and political pluralism, making Ukraine a country that defends the same values as the European Union. The Yuschenko government installed showed a high interest in joining the European Union, but has reduced the other hand, the importance they had ties with Russia. This is also the great challenge of Ukraine to maintain a balance between the relationships we have with Russia and that wishes to establish with the European Union. Although Ukraine has made numerous improvements, particularly in financial and commercial areas, it has numerous delays in respect of human rights, media freedom as regards the judiciary reform. Blame the bias but not to advance not only Ukraine but the EU has identified this country many times with Russia, such as by carrying out joint strategies for both countries. Communication for an enlarged Europe in March 2003 highlighted the existing problems by practicing an open door policy with the Balkan states, but not with Ukraine. However, Ukraine



has a significant strategic importance for the European Union because as he said and Javier Solana, has rich natural resources and good geographical location.

As the vision Ukrainians about the EU, it is becoming more favorable joining the European Union, especially since the '90s political values of the state began to change radically, flourishing a departure Russian and Lithuanian culture for Europeanism. This fact makes the Ukraine to be more acceptable to the peoples of Europe than a country like Turkey which has an oriental culture.

But Ukraine begins to resemble in many respects to Turkey as a country aspiring to join the EU but not yet recognized as a European country, NATO's only strategic importance of recognizing and owning (Gower and Redmond, 2001). Despite this, the European Union continues to be an important trading partner and source of investment and assistance for Ukraine. This cooperation is likely to continue at the same pace, because Ukraine has been denied the ultimate goal of its strategy: joining the European Union. Belarus, because of its political regime is unlikely to join the European Union in the near future, but the Union is concerned with the state because of its geostrategical position and the important role it has on oil pipeline route from Russia (Pop Ghenghină, 2007) interest was stressed from the moment Belarus has halted delivery of oil from January 7, 2007 to some member states, thus demonstrating the power he possesses by the fact that these pipelines crossing its territory. But Belarus has problems and demographic, economic and destabilization of the state, deterioration of public services, splitting the elites and their struggle for power. The problem is the situation of Moldova and economic situation in this country and because of existing political instability. The European Union is cautious and because of the conflict in Transnistria, that due to progressive enlargement of the Union went through its borders reached. Russia's accession to the EU is not currently on the agenda in Brussels or Moscow, and the changing situation is expected in the near future. However, it is acknowledged by all European Union members that long-term security and stability on the continent depend on the integration of Russia into European cooperation and to avoid the perception that it is excluded or alienated.

In recent years Russia is beginning to stabilize both economically, due to oil and gas exports, but also politically by stabilizing the political situation. Russia urged to adapt to new realities, ones that relate to the fact that Lithuania, Latvia and Estonia are part of the European Union, Ukraine and Moldova have applied and Caucasian republics, notably Georgia and Armenia would be delighted with the opportunity accession. It may be noted that a large part of the old Soviet Union or the European Union is already at its gates. So why do we see in Russia a possible state of the European Union? Although the territorial, political, economic and demographic would be a complicated integration of strategically everything would make sense. It would be attractive but would create numerous problems and imbalances due to its size and complexity. However looking at a more distant temporal perspective, certainly, in addition to the costs they would entail, and would include

many benefits. Russian membership would be an ambitious and attractive, but still premature. Russia is still far from fulfilling the Copenhagen criteria, because the economic and political transition in Russia is far behind most, if not all states in Central and Eastern Europe. Russia's main problems are caused by deficiencies evident in the operation of a market economy and continuing political instability.

For the European Union is almost impossible to predict costs of the CAP and enlargement of structural policies in a country as vast as Russia and the poor. This would not be the limits of the current EU budget. Another important reason for the reluctance of Russia's accession to the eye is the fact that a state so large in terms of territory and population would create a serious imbalance in the political system of the European Union would lift enormous administrative difficulties. Russia's population of approximately 150 million people makes it two times higher than Germany and this create problems regarding the distribution of seats and votes in EU institutions. Although it has many problems, Russia can not be regarded as any normal state, although it is considerably weakened because it remains by far the greatest military power on the continent and a major player in the world. Its geographical position is another obstacle to its accession to the Union, with some reservations silent on European identity.

Lately, it talks about a new project that is Mediterranean Union project, promoted in particular by France and Germany supported conditioning. This proposal involves the generation of a permanent structure involving countries on the southern shore of the Mediterranean, namely the neighbors of North Africa and the Middle East. The stated aim should be more visibility, promote new projects and overseeing their realization.

The energy crisis is an increasingly important influence factor leading to the shaping of this union. Until the transition to new forms of alternative accessible energy it is possible that conventional fuel reserves to run out. The North Sea are limited and difficult to operate, the Latin American suppliers have started to claim, the world market is controlled by OPEC members and oil barrel price goes up slowly but surely. European Union, tried to rebuild the cradle of Western civilization, with the hope that it will be able to control the European position. Europe of tomorrow can become a conglomerate of cultures and civilizations. Among the nearly half a billion EU citizens already living, there are a lot of non-europeans that are living there, too. If integration is to build concrete and on the other side, and gradually, money and effort in general, emancipation will be possible tolerance, coexistence and cooperation, we can witness the emergence of an area of peace and prosperity in the Mediterranean basin.

## 5. CONCLUSIONS AND PROPOSALS

Europe is not a well determined, but may be considered a mental map or image space. This concept of Europe has suffered over time from changing redefine many geopolitical and ideological perspectives she went through. I could make a correlation between these explanations of what we now call the European Union. It is clear that the realities of 50 years ago have changed, that have appeared on the international scene as the new concepts of globalization or terrorism, and the Union must demonstrate its dynamism to be able to pursue goals of its founding fathers. Thus, in Europe the third millennium we must not seem absurd or utopian visionary ideas who see an enlarged European Union and perhaps even beyond the Urals in the Mediterranean South. But the question is whether we will be ready to accept the risks and costs involved in such an expansion, because they will not be limited.

The costs of future expansions over 27 countries of the European Union exist, but this should be viewed correlated with benefits. Union will not be able to finance the enlargement of countries without continuously support its Member States. The current global financial crisis leaves a Europe that know financial census and unemployment is an acute problem. Union will be able to adapt their policies to create good will and continue its enlargement.

When considering the extension, it's important to be raised the political and economic costs, not to meet this expansion. There is the question of military costs, those data will be the attitude of investors, but can not be overlooked that consumers in these countries is a Bonanza for Western European affairs. If they look at the net costs are low, amounting to 0.01% of GDP of the EU budget (Gower and Redmond, 2001) that macroeconomic terms is a small price to pay. The problem is that some members believe that in real terms, will have to pay more than others. Costs are certainly clear to everyone; perhaps only for some members the benefits are less tangible.

Nobody has illusions however about the fact that there are no difficulties of EU enlargement. Most of the candidate or potential candidate is faced with more difficult issues regarding the criteria for membership than their forerunners, this being due to both political and economic transition that demands more and needs to be meet in the *acquis communautaire*. Their relative poverty and economic underdevelopment, compounded by ethnic and those concerning human rights, led inevitably to fierce discussions within the Union dominated by speculation on the costs of enlargement and the occurrence of unacceptable redistribution of budgetary resources at the expense of current beneficiaries.

Before continuing enlargement, the Union must address two fundamental domestic issues: reform of two of the most sensitive EU policies, namely the common agricultural policy and structural funds, enlargement costs for management and institutional reform to ensure

operation Union effective. Road to expand but can not be interrupted by the inability of Member States to agree on reforms to be realized, they equally feared the loss of money and power which they might suffer.

Although the European Union no show enthusiasm for enlargement, some states are worried by the political and financial costs involved, there is still a sense of historic opportunity that must not be lost, not to weaken the rationale for European integration. The final decision will ultimately be a political, and already are steps to move public attention to the costs of expanding the opportunities arising as market expansion, increased security and better pan-european cooperation in solving problems like the environment and organized crime. Grand European project is not only a beautiful dream, but a real necessity for the developed economies of Europe. But with as many players will be at a table, it will be harder to reach an agreement, and if the participants in this game are so different as to be expected, the problems will be worse. However the big problem is not in the EU decision-making, but is represented by the great European instability strategies to adapt according to the project, from stage to stage, as the extent and implications of new players.

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# UNDER WHOSE UMBRELLA? THE EUROPEAN SECURITY ARCHITECTURE

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**Abstract:** *The tragic events which occurred during the '90s in the Balkans have reiterated the need for the European Union (EU) to assume a much more assertive role in managing security concerns in Europe, including the development of European defence capabilities. In 1998, at Saint Malo, Tony Blair and Jacques Chirac launched the European Security and Defence Policy (ESDP). This project has been generated due to the EU's need to adopt a strategic framework within which to develop a global defence and security component, as well as due to a growing necessity for the EU to contribute effectively to North Atlantic Treaty Organization (NATO) and United Nations (UN) efforts of conducting defence, international crisis management and peacekeeping operations at an international level in conflict-prone areas. In recent years, ESDP has undergone a spectacular evolution, being now among the major issues discussed in Brussels. However, the creation of the ESDP has been greeted with caution by some NATO members being perceived primarily as a threat to the integrity of the North Atlantic Treaty Organization. The purpose of this paper is to examine the difficulties the ESDP has encountered since its inception and also to what extent it has affected the EU-NATO and the EU-US nexus.*

**Keywords:** European Union, European Security and Defence Policy, North Atlantic Treaty Organization, European security architecture

**JEL Classification:** Y80

Since the end of the Cold War both European and American officials have sought to *rebalance* or strengthen NATO through the development of a stronger *European pillar*. Subsequently, the replacement of European Political Cooperation by the Common Foreign Security Policy under the 1993 Maastricht Treaty of the EU addressed for the first time security and defence issues. (White, 2001, p. 94) However, the 1991 Gulf War and the outbreak of Yugoslavian conflict emphasised that Europe was still unable to act as an autonomous security entity. “By 1994, NATO had risen, Phoenix like, from its own apparent self-immolation and had re-emerged as the only show in town.” (Howorth and Keeler, 2003, p. 7) The steps towards *limited autonomy* took place effectively at NATO's June 1996 Berlin ministerial meeting when, after long debates between the US and its European counterparts, an European Security and Defence Identity (ESDI) within NATO

was created as a technical-military means to strengthen the European pillar of the alliance. In this sense, ESDI authorised the EU's forces to take on operations in which NATO did not wish to be involved. In order to back up ESDI, the Combined Joint Task Forces (CJTFs) concept was launched. "CJTFs would facilitate NATO's new missions in crisis management and peace support operations by providing the flexibility needed to deploy at short notice forces specifically tailored to a particular contingency." (Cragg, 1996)

However, owing to several frictions between the US and the European members fuelled by the US' objections to allowing the Europeans access to crucial NATO assets, the 1996 Berlin formula failed to achieve its aims. The path towards European security and defence architecture was paved by the joint communiqué issued in 1998 by French President Chirac and British Prime Minister Blair sped up by the crisis in Kosovo. Everything materialised at the Helsinki European Council from 1999 which launched the European Security and Defence Policy (ESDP) and also initiated the *Helsinki headline goals*. Among these goals was the creation of a European Rapid Reaction Force (ERRF) of up to 60.000 troops which were to be deployed in the operations covered by the *Petersberg tasks* (humanitarian and rescue missions, peace-keeping operations and tasks of combat forces in crisis management and of peacemaking). (Wallace and Pollack, 2005, p. 449)

By and large, ESDP is an intergovernmental policy based on consensus, where unanimity is required. According to Chivvis, "ESDP is best understood as a proven institutional capacity that allows European states to take collective action to conduct small-scale military and civilian operations around the world, if they choose, without help from NATO". (Chivvis, 2008, p. 5) However, ESDP met with scepticism on the other side of the Atlantic. The Clinton administration expressed its concern that it might weaken NATO. In this regard, the US Secretary of State Albright through her famous *3 Ds* formula expressed the US' support to the project provided there was no decoupling (the ESDP must complement to NATO), no duplication (of the NATO command structures) and no discrimination (against any non-EU NATO member). (Howorth and Keeler, 2003, p. 11)

In the following years, some EU members of a more *Gaullist* orientation wanted more EU decision-making power alleging that "the withdrawal of the Soviet Union from Europe's East would naturally mean the withdrawal of the United States from Europe's West" (Chivvis, 2008, p. 10). In this sense, since 2003 when it took over the civilian police mission in Bosnia, ESDP has been engaged in several missions in FYROM, DR Congo, Georgia, Iraq, Sudan, Indonesia or in the Palestinian Territories. On the whole, the personnel involved in these missions performed a variety of tasks, from law enforcement and cease-fire monitoring to security and humanitarian crisis management. In spite of the circumstances, ERRF will not be able to carry out combat operations until, at earliest, 2012. (Cameron, 2007, pp. 82-83; ESDP's operations website, 2008)

Unlike the Clinton administration, many officials who served under the Bush administration shared a *win-win* view of the ESDP. The European security was no longer seen as a peril to the harmony within NATO. “In the age of global terrorism, any capacity is welcome.” (Moens, 2003, p. 35) Accordingly at the Bucharest Summit 2008, President Bush admitted that ESDP is both “useful and necessary” (Duff, 2008). Moens underlines that “there is more concern in the Bush administration with declining European defence budgets than with the potential of an ERRF competing with NATO” (Moens, 2003, pp. 34-35). Indeed, the financing of the ESDP and the shares in the budget which Europeans confer to defence casts doubt the viability of ESDP, especially after the 9/11 since the US has been hasting the European governments to increase their defence spending and tackle the *capabilities gap* (members of NATO together spend only one third as much on defence as the USA).

In June 2004, after making a re-evaluation of the activities fostered under ESDP’s framework, the EU acknowledged that many issues have to be improved. The new 2010 Headline Goals put emphasis on inter-operability, deployability and sustainability. Furthermore, the European and Defence Agency (EDA) was established in order to enhance Europe’s defence capabilities, promote defence, technology and armaments cooperation, and create a competitive European defence equipment market.

The years to come could contribute to ESDP’s further development as soon as the Lisbon Treaty will be ratified that could settle the *intra-EU quarrel* that previously obstructed ESDP’s evolution. Based on several analyses undertaken by many officials and experts in Brussels, Chivvis argues that the most possible scenario for the ESDP’s future is the one which embraces the so-called *Athenian* model. This model in contrast to the soft, light *Venusian* pattern and the hawkish *Ares* model focuses either on creating capabilities for stabilisation and nation building operations or on building technological competence. Moreover, many experts claim that in order to accomplish its goals, ESDP must not only rely on the development of a *Euro-army*, but also be part of a revitalised transatlantic security system. A positive U.S. attitude toward ESDP is practically the precondition for ESDP’s success. (Chivvis, 2008, p. 13)

However, strains still exist between the two sides. Five years ago, in 2003, the harmony within NATO was overshadowed by the conflict in Iraq when the *new Europe* - Britain, Italy, Spain and most of the CEECs – chose to follow the US leadership whereas *old Europe* – France and Germany – opposed to American grievances.

One major U.S. complaint about ESDP is that it creates vis-à-vis NATO an inherent competition for resources. In addition, besides the early American concern that ESDP would weaken NATO predominance, the question of building an independent European Headquarters (at



present ESDP uses the Supreme Headquarters Allied Powers Europe, SHAPE) could aim according to the US' perception "at building ESDP as an alternative to NATO" (Chivvis, 2008, pp. 28-31).

Another rift has opened between some European states and the US who argue in favour of pushing NATO beyond its usual military tasks. One of the grounds behind NATO's comprehensive security approach launched at Riga in 2006 underlines that today's security threats have to be tackled with a more civil-military interface. (Riga Summit Declaration, 2006) This could be however difficult to attend by NATO for two reasons: firstly, the EU's comparative advantage is exactly its *civilian* power which makes ESDP's supporters reluctant to concede this domain to NATO and, secondly, because Turkey blocks every attempt on the side of NATO to solve the situation owing to its unclear status within this new European security architecture. (Hofmann, 2008, pp. 9-10)

Turkey attempted to be part of the EU's defence and security mechanism, but owing to its non-EU status its bid was rejected. The EU's offer stated that Turkey cannot be part of the decision-making of the EU, but may be involved in all aspects of the decision-shaping process. (Toffe 2003, p. 148) This is the reason why Turkey decided in spring 2000 to hinder the entire Berlin Plus mechanism by threatening to veto the transfer to the EU of the NATO assets. Therefore, in order to reach a final agreement on *Berlin-Plus*, "ESDP de facto became dependent on the Turkish exception" (Haine, 2004, p. 139). The Ankara text from 2001 represented an effort to thaw the strained situation. The document gave guarantees of non-aggression between NATO and ESDP and confirmed that ESDP would not be directed against non-EU NATO members. Moreover, at Turkey's request, Cyprus was excluded from the EU-led military operations. The Ankara agreement gave thus the possibility to non-EU NATO members to be *associated* with decisions and take part, if they wish, in the EU's missions. "The EU is ensuring the involvement of non-EU European members of NATO within ESDP" whereas NATO is giving the EU "assured access to its planning capabilities"( EU-NATO Declaration on ESDP, 2002).

However, a disfunctional problem has been created regarding the security arrangements between NATO and the EU, which have been blocked by the Turkish-Cypriot dispute. The Cypriot government tries to exclude Turkey from European defence bodies, whereas Turkey precludes the participation of Cyprus in NATO-EU meetings. The rapprochement between the Cypriot and Turkish sides needs urgently to be achieved because without a solution, Cyprus will hardly agree to Turkey's admission into the EU, which could complicate even more the cooperation between NATO and ESDP. (Kambas, 2008) Jaap de Hoop Scheffer, the former Secretary General of NATO, suggested that the EU should extend its defence ties with Turkey to ease European cooperation with NATO. Additionally, he mentioned that the EU should consider inviting Turkey to join the EDA,

move which could persuade Ankara to give up its objections towards the NATO-ESDP collaboration. (Hall, 2008)

Despite these discrepancies between NATO and ESDP, Victoria Nuland, the former American ambassador to NATO, emphasised the importance of ESDP which far from being a threat, is currently an urgent necessity. “Europe needs, the US needs, NATO needs, the democratic world needs – a stronger, more capable European capacity.” (The Economist, 2008) In this sense, France has made the revitalisation of European defence a priority under its presidency of the EU: “Strengthening European defence is part of a renewed political vision, based on the complementarity of European and NATO defence.” (Jouyet, 2008)

The importance of a European defence pillar in NATO is even stronger today, since Barack Obama was sworn into office on January 20, 2009. Daniel Hamilton, Director of the Center for Transatlantic Relations at Johns Hopkins University, writes: “President Obama’s meetings with NATO and EU leaders in April 2009 offered a rare opportunity to press the *reset* button on relations between Europe and North America. They must seize the moment to recast the Atlantic partnership – in all of its dimensions – to tackle a diverse range of challenges at home and abroad” (Hamilton, 2009, 5).

The NATO Summit in Strasbourg-Kiel on April 3 and 4 2009 officially confirmed French return to NATO’s integrated military command more than 40 years after it left (in 1966). This move announced by President Sarkozy since June 2008 will try, according to analysts, to boost the EU defence dimension. (CNN, 2008) “The more France takes its place in NATO, the more European NATO becomes” (Duff, 2008), claimed the president.

According to the Treaty of Lisbon which entered into force on the 1<sup>st</sup> of December 2009, the ESDP was renamed to Common Security and Defence Policy (CSDP). The Treaty of Lisbon has also brought about several innovations were to address the cohesion and effectiveness problem of the EU with respect to security and foreign affairs issues.

On balance, it could be said that ESDP was, on the one hand, mostly the result of structural changes in the world political system brought about by the end of the Cold War and by several nidi of instability within Europe’s boundaries or at its periphery and, on the other hand, perhaps a need to counterbalance the US’ strength and capabilities. In a remarkable attempt to depict the future of ESDP between now and 2020, Keohane and Valasek stress three things which ESDP should accomplish in order to enhance its capabilities: re-organise and improve resources, develop a doctrine for comprehensive crisis-management and invest more in prevention. (Keohane and Valasek, 2008, 41-48)

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# THE IMPLICATIONS OF GROSS FIXED CAPITAL AND UNEMPLOYMENT RATE ON GENERAL GOVERNMENT DEFICIT. EMPIRICAL STUDY AT THE EUROPEAN LEVEL

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**Abstract:** *In this paper we have evaluated the influence of the modification of public investment level and unemployment rate on the general government deficit at the European Union level. We have created a regression model that shows that a sustained and increased investment policy and the reduction of unemployment rate have a favorable effect on the objective of minimizing the budget deficit. In the last years European Union’s countries had to face a difficult problem concerning fiscal policy. They had to make public investments to stimulate economic growth and, in the same time, they had to meet the convergence criteria’s of public deficit. On the other hand, EU has to deal with a higher rate of unemployment. Through our model we try to see how European Union countries should implement their political strategies on unemployment and investment with the main objective of reducing the general government deficit.*

**Keywords:** general government deficit, gross fixed capital, unemployment rate, correlation, regression.

**JEL classification:** C51, C52, H54, H62, J64.

## 1. INTRODUCTION

In the last years European Union faced a series of problems both political and economical. In an attempt to overcome the economic and financial crisis, European Union adopted new policies and procedures. However, some problems have not yet found the answer.

European Union faces a new problem concerning fiscal policy. On one hand, fiscal policy must create the appropriate economic environment to support growth by financing more and more investments projects and, on the other hand, it has to protect the macroeconomic stability, especially the public deficit that must not be more than 3% of gross domestic product. Although many

European countries have developed during the recent years new fiscal and investment policies under the European Economic Recovery Plan for restoring confidence in economy by strategic investments, large government budget deficits are still a concern in most European Union countries.

Another important problem is the unemployment rate and its implication on public deficit. High unemployment rate threatens most European economies. Each country increased its social expenses. Each European country must adapt its policy to face this problem. It is crucial to ensure the correct matching between labor market and supply if European Union members want to eliminate the effect of unemployment on public deficit.

## **2. THEORETICAL CONSIDERATIONS REGARDING PUBLIC DEFICIT, PUBLIC INVESTMENT AND UNEMPLOYMENT RATE**

A government deficit is a common economic phenomena taking place at the national level. Government deficit or surplus represents the difference between current government receipts and current government spending in a single year. When the government spends more than it collects, a deficit occurs. The opposite of a budget deficit is a budget surplus. Usually the government deficit is the amount borrowed from the private sector.

A government deficit can be expressed using the following accounting relation:

$DEF = D_t - D_{t-1} = E + iD_{t-1} - TAX$ , where  $D$  is the stock of public debt,  $E$  is government primary expenditure,  $i$  is the nominal interest rate on the debt and  $TAX$  is total revenues (Bayer and Smeets, 2009, p.7). From this way of defining it we can observe that the governmental deficit increases with governmental spending, nominal interest on the debt and decreases with government revenue.

At the European Union level, government deficit is defined in The Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community and in Regulation (EC) No 3605/93(2). Since 1992 European Union countries have been struggling to find a common policy concerning the deficit. First, the Maastricht Treaty established the convergence rule and reference value at 3% of gross domestic product for the governmental deficit. The same fiscal rule was reinforced in Stability and Growth Pact. It was necessary to use rules to limit the degree of fiscal policy discretion because governments spend more for purposes other than those of economic growth such as interest of political supporters, re-election (Castro, 2007). It is even more important to avoid excessive public deficit when the country takes part in a monetary union and to impose fiscal rules.

Public investments represent all the expenditures made by the government for the purchase of capital goods. Investments are divided into replacement investments and development investments.

At the European Union level public investment procedures vary. They depend on how each member state understands to delegate these activities. There is well known that the Maastricht convergence process led a fall in public investment expenditures (Turrini, 2004). An important question regarding public investment is about its effects on public deficit. Although it is well known that public investment represents an economic development factor, an increase it will affect the governmental expenditures. Public investments in European Union countries decreased during the periods of fiscal consolidation that took place in the late '80 and in the '90 and in the period that precede the introduction of the euro (Turrini, 2004). The European Union fiscal framework on public investment requires that the most public expenditure, including those in investment projects will have to be founded from current revenues (Turrini, 2004, p.25). As a response to the negative impact of public investments on public deficit, Turrini says that the European countries must implement the golden rule. So 'the government should not attribute entirely to a single year's accounts the full cost of a project that is likely to generate gains for long time period. Since investments normally imply future return, their cost should consistently be distributed across several years, as return materialize' (Turrini, 2004, p.25). The implementation of this rule has the objective of avoiding the failure of European Union fiscal framework because of intense public investment policy.

Unemployment is a fact of not having a job, or being joblessness. It is a measurement reflecting the percentage of population that is looking for a job but is unable to find one. The indicator that measures the intensity of unemployment is one of the most important macroeconomics indicators. Unemployment rate is determined by dividing the total number of unemployed individuals by total active population currently in the labor force. It is expressed as a percentage.

At the European Union level there is a strategy concerning unemployment called The European Employment Strategy. It was developed with the purpose of encouraging exchange of information between member states and of finding solution to decrease de unemployment rate. It promotes innovation and investment. Although European economy is based on knowledge, unemployment rate is increasing with negative effect on wealth. The economic crisis raised the number of unemployed people.

### 3. LITERATURE REVIEW

The economic variables play an important role in explaining government deficits. During the recent years the efforts to develop economic models for explaining public deficits increased. The literature provides an important number of studies concerning the causes for public deficits. The general opinion is that governmental deficits are affected by the amount of public debt and economic performance.

Public debt is considered to be the principal factor for government deficit (Balassone and Francese, 2004). According to them a higher debt ration means an increase in interest payments and, of course, an increase in public spending.

Other studies consider the macroeconomic conditions as a factor of public deficit. When the economy is growing faster or when the unemployment rate is low the public deficit decreases (Castro, 2007).

The interest rate is considered to have a huge impact on public deficit. When there is a high interest rate the public deficit will increase because of the increase in interest expenditure on public debt (Castro, 2007).

The inflation rate is another factor of the modification of public deficit. The inflation rate is considered to have a directly negative impact on government revenues and expenses, on interest rate, on investment and economic growth (Tujula and Guido, 2004). Contrarily, Perotti and Kontopoulos (2002) argue that the higher the inflation rate is, the lower the deficit will be.

Another group of determinants of the public deficit are considered to be the political factors. According to political theory there are many ways of establishing the principal direction in economy. Some politicians are interested in inflation and unemployment and others in economic growth. Some have personal interests. This behavior causes changes in the level of deficit (Castro, 2007)

At the European Union level we are currently speaking about excessive deficits defined as being a deficit higher than 3% of gross domestic product. Studies on the causes of excessive deficits are undeveloped and few have developed econometric models to explain the factors that determine excessive deficits.

Bayar and Smeets (2009), concerned with the entry and exit dynamics of an excessive deficit, concluded that economic growth and higher governmental receipts have a positive effect on public deficit while expenditures have a negative impact. Taking into consideration the public debt, Bayar and Smeets (2009) demonstrated that the higher the debt is, the higher the possibility of having an excessive deficit will be.



In a study published in 2007, Vitor Castro estimated a conditional fixed effects logit model over a group of 15 European Union members. He demonstrated that ‘unfavorable economic conditions, parliamentary elections and political instability, and majority leftwing governments are important causes of excessive deficits in the EU countries’ (Castro, 2007, p. 29). In the same study he mentioned that the European Union fiscal policy ‘have been important in reducing the probability of excessive deficits in Europe’ (Castro, 2007, p. 30). Regarding the implications of the public debt on the increase or decrease of government deficit he argues that ‘the higher and more persistent the public deficit is, the more difficult for a country to avoid excessive deficits will be’ (Castro, 2007, p. 30). The study reveals also that the growth rate of real gross domestic product has an impact on public deficit. If government revenues increase and government expenditures on unemployment decrease, due to an unemployment decreases, than the probability of an excessive deficit will be reduced. Regarding political variables Vitor Castro sustains that the opportunistic behavior of policymakers is the main political cause of excessive deficits in the European Union area, ‘that the probability of an excessive deficit is reduced only two or three years after elections’ and that the political instability as an increase of the governmental changes per year is also affecting excessive deficits (Castro, 2007, p. 30).

Concluding, in the literature there are some models explaining the principal factors that determine governmental deficits. We showed the implications of public debt, interest rate, inflation, unemployment, macroeconomics condition and political factors on the increase of public deficit.

There are few studies regarding the implications of public investments and unemployment rate on the governmental deficit. The aim of this article is to fill a gap in theory and to explain how these two factors affect the governmental deficit.

#### **4. EMPIRICAL STUDY**

This paper aims to study the connection (links) and inter-linkages established between a number of variables that characterize the segment of national economic policies in the European area (budget deficit, investment, unemployment), with the ultimate objective of generating a statistical regression model to explain the influence of investment and unemployment on the budget deficit and to allow estimating the scale of the resultative factor on the basis of factor variables.

*Statistical Hypothesis: The national budget deficit is influenced by the size of investments made in fixed assets in the economy and by the unemployment rate.*

#### 4.1 The description of the variables used in the regression model

The study was conducted in the European countries using the data compiled for the period 2008 – 2009 as showed in Annex 1. The source of information is represented by the European Institute for Statistics (Eurostat). The nature and characteristics of variables used in the model are summarized in Figure No. 1.

**Figure 1- The variables used in the econometric model**

<b>Variables</b>	<b>Economic expression</b>	<b>Statistical expression</b>
General government deficit/ Surplus	Represents positive or negative difference between forecasted budgetary resources and allocations expected to be achieved at the national level in a given period. The government sector includes national level, local level and social level. It was measured in euro and expressed as a percentage of GDP.	Dependent variable Resultative variable Quantitative dimension Expressed as a percentage of GDP
Gross fixed capital/ public investment	It is the size of fixed assets purchased or made by residents for use in the production process. It was measured in euro and expressed as a percentage of GDP.	Independent variable Predictor factor Numerically expressed as a percentage of GDP
Unemployment rate	Unemployment rate is determined by dividing the total number of unemployed individuals by total active population currently in the labor force. It is expressed as a percentage. (people between 15 and 75 years old)	Independent variable Predictor factor Numerically expressed as a percentage.

In the methodological approach was used multiple regression model using the SPSS 15.0 statistical tool.

The model equation could be expressed as the following one:

$$Y_i = \beta_0 + \beta_1 \cdot X_1 + \beta_2 \cdot X_2, \text{ where:}$$

Y= dependent variable,

X<sub>i</sub> = Independent variables,

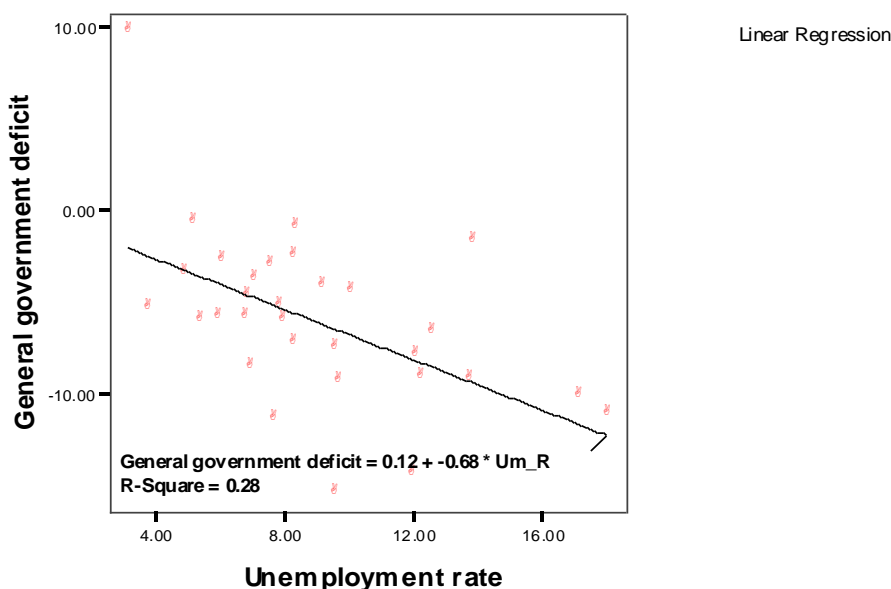
B<sub>0..i</sub> = regression coefficients.

#### 4.2 The methodological approach and the interpretation of results

The first determinant step, in the correlation and regression analysis, in obtaining an effective statistical model, is the appropriate estimation of the model. In this case, we showed the existence

of a linear link between the variables. The correlation between the independent and the depended variables can be approximate as shown in the ScotterPlot figure below as being a linear regression model. The result of this initial step justifies the continuation of the analysis in this direction.

**Figure 2- The correlations between unemployment rate and general government deficit**



The study of the correlation established between the variables of the model, through the value of the coefficient of determination  $R^2 = 0,31$ , reveals that 31% of the variation of the general government deficit can be explained by the variation of the independent variables (fixed capital investment rate and unemployment rate). The difference is put on the account of randomness and other factors. Sig value is about 0,006, lower than the superior limit accepted of 0.05, showing that the linear model is validated through the Sig value. That means that the risk of being wrong when concluding that between the variables of the model is a strong correlation is less than 5%. Sig value, lower than 0.05, suggests that the linear model is the most appropriate one to express the correlations between variables. This step of analyze is presented in the figure below:

**Figure 3- Model Summary- Linear regression model**

Model Summary <sup>b</sup>									
Model	Statistics								
	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df 1	df 2	Sig. F Change
1	.557 <sup>a</sup>	.310	.261	3.99597	.310	6.293	2	28	.006

Table Caption

a. Predictors: (Constant), Gross fixed capital formation, Unemployment rate

b. Dependent Variable: General government deficit

The parameter's estimation of the regression model equation and the validation test results are showed in the Figure below:

**Figure 4- Correlation Coefficients**

Coefficients <sup>a</sup>									
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95% Confidence Interval for B		Collinearity Statistics	
	B	Std. Error				Lower Bound	Upper Bound	Tolerance	VIF
1 (Constant)	-5.254	5.191		-1.012	.320	-15.887	5.379		
Unemployment	-.673	.203	-.521	-3.318	.003	-1.089	-.258	.998	1.002
Gross	.267	.239	.175	1.116	.027	-.223	-.756	.998	1.002

a. Dependent Variable: General government deficit

The equation of the regression model, according to the data showed above, is the following:

**Figure 5- The equation of the regression model**

General government deficit	=	-5,24	+	0,267	Gross fixed capital	-	0,673	Unemployment rate
Sig value								
				0,003			0,027	

Regression coefficient are:  $B_0 = -5,24$ ;  $B_1 = +0,267$ ;  $B_2 = -0,673$ .

The model reflects the influence of the independent variables on the general government deficit:

- If we maintain constant the investment rate, a percentage increase in the level of unemployment rate leads to reduction the budget deficit in average with 0.673 percent.
- When the unemployment rate remains constant, an increase of one unit of investment rate generates a growth rate of the budget deficit of 0.267 units, in average.

Sig values, lower than the limit of 0, 05, corresponding to the risk assumed in the analysis of regression coefficients, present significant link between the variables analyzed, also validating the model. The mathematical equation can be used as a tool for predicting the general government deficit when we know the value of the gross fixed capital and unemployment rate.

If we analyze the intensity of the influence of independent variables on the dependent variable showed in Figure-4, we can see a higher influence provided by the unemployment rate. The

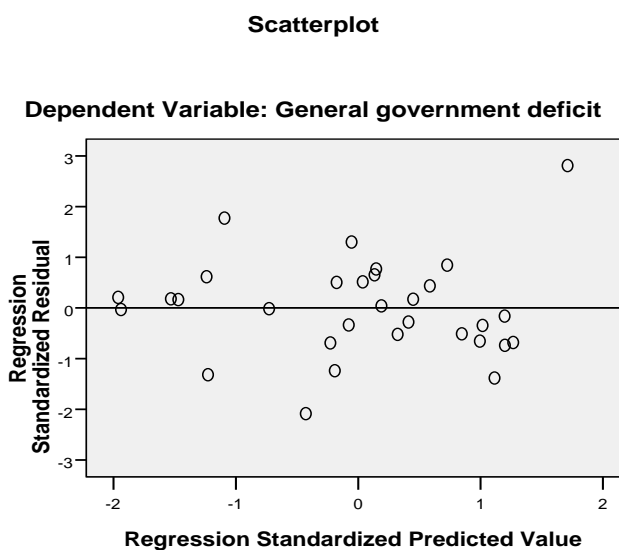
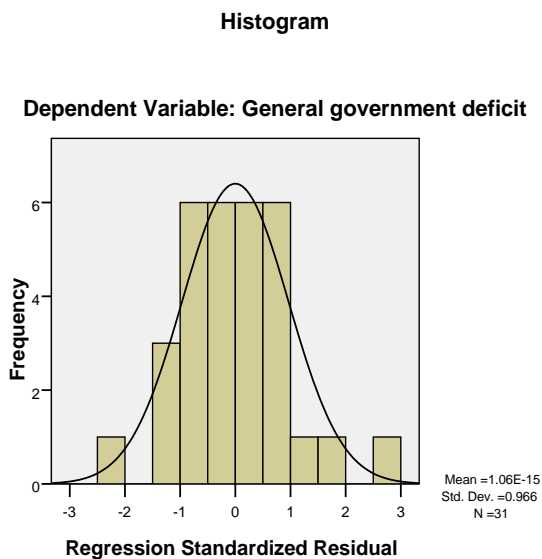
influence of the unemployment rate modification on the budget deficit is three times higher than the influence of the level of investment on the same dependent variable.

To obtain a valid regression model and the relevant conclusions, is required an independent variables collinearity diagnostics. This implies the absence of influences between the predictors. We have to evaluate collinear statistics values such as: tolerance and variance inflation factor – VIF. In Figure-4 we can see that values for these two statistics. Tolerance’s values closed to 1 and VIF’s values lower than 10 suggest that the collinearity between independent variables does not exist.

Once we have approximated the linear regression model, we have to test it’s linearity by using residue analysis process. From histogram and scatter plot charts showed below we can see that we have a normal distribution of the residuals around the mean which corresponds to the assumption of linearity of the model.

**Figure 6- Linearity through Histogram**

**Figure 7- Linearity through Scatterplot**



## 5. CONCLUSIONS

In the current economic situation in Europe, we notice the existence of a deep economic crisis, manifested in particular by the inability of governments to ensure coverage of the public expenses through revenues generated by public national economies. This imbalance reflected in the budget deficit, calls into question the opportunity of economic and social policies promoted by the European countries, highlighting the need to implement deep reforms, structural, in this field.

This article has highlighted the influence exerted on this imbalance by investment and occupational factors, confirming, also, the existence of correlations among them, quantifying their effects. Empirical study confirm authors acknowledge that a sustained and increased investment policy based on value will reduce the unemployment rate having a favorable effect on the objective of minimizing the budget deficit, the fundamental objective of economic and social stability of each state and the European Union as a whole.

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[www.eur-lex.europa.eu](http://www.eur-lex.europa.eu)

### Annex 1- Data on government deficit, unemployment rate and gross fixed capital

Country	Government deficit	Unemployment rate	Gross fixed capital
Belgium	-6,00	7,9	21,3
Bulgaria	-4,70	6,8	24,4
Czech Republic	-5,80	6,7	22,5
Denmark	-2,70	6	18,2
Germany (including forme	-3,00	7,5	17,6
Estonia	-1,70	13,8	21,6
Ireland	-14,40	11,9	15,5
Greece	-15,40	9,5	17,2
Spain	-11,10	18	24
France	-7,50	9,5	20,6
Italy	-5,30	7,8	18,9
Cyprus	-6,00	5,3	20,4
Latvia	-10,20	17,1	21,5
Lithuania	-9,20	13,7	17,1
Luxembourg	-0,70	5,1	17,3
Hungary	-4,40	10	20,9
Malta	-3,80	7	15,4
Netherlands	-5,40	3,7	19
Austria	-3,50	4,8	21,1
Poland	-7,20	8,2	21,2
Portugal	-9,30	9,6	19,4
Romania	-8,60	6,9	25,6
Slovenia	-5,80	5,9	23,9
Slovakia	-7,90	12	20,6
Finland	-2,50	8,2	19,5
Sweden	-0,90	8,3	17,8
United Kingdom	-11,40	7,6	14,7
Iceland	-9,10	12,2	13,9
Norway	9,70	3,1	21,8
Croatia	-4,10	9,1	24,7
Turkey	-6,70	12,5	16,9

Source: European Institute for Statistics (Eurostat), Statistic database,

<http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/themes>.



# EXCHANGE RATE AND ECONOMIC GROWTH. THE CASE OF ROMANIA

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**Abstract:** *Considering the difficulties created by the economic crisis, many exporters have criticized the National Bank of Romania (NBR)’s policy regarding the exchange rate evolution. They argue that depreciation is a necessary condition for recovery and not financial stability.*

*On the contrary, Romania cannot afford a shock in the exchange rate level. The risk associated with such a measure is too high for an emerging country and it annihilates any export competitive advantages. Therefore, depreciation may delay the imperative of Romanian economic recovery. A solid economic recovery should have as starting point a financial system sound and stable. Excessive exchange rate depreciation jeopardizes the financial soundness of banks and the borrower’s ability to repay their loans. Therefore, it creates inflationary flare-ups, particularly dangerous for the economy of any state.*

**Keywords:** exchange rate, economic growth, Romania, euro, leu, depreciation, appreciation

**JEL Classification:** F31, O42, O52

The exchange rate between EURO and Romanian leu (RON) didn’t fluctuate significantly in the last years. As a response, many exporters have criticized the National Bank of Romania (NBR)’s policy regarding the exchange rate evolution. They consider depreciation as a necessary condition for the domestic economy recovery. Also, they argue that the actual level of exchange rate of Romanian leu against EURO is overrated. The main argument is based on the exchange rate changes, correlated with inflation rate from our country in the last six years: the inflation increased by 42% and the national currency depreciated by only 3%. On the other hand, NBR’s Governor Mugur Isărescu declares that excessive floating it is not suitable for an emerging economy such as that of Romania.

Therefore, some clarifications about the national exchange rate arrangement are needed. Romania practices a managed floating, which means interventions of Central Bank materialized in purchases and sales of convertible currencies. Monetary authority can interfere whenever necessary in order to prevent an imbalance of the financial system, with repercussions on the real economy. National Bank of Romania intervenes on currency market when the exchange rate does not reflect economic realities. The Central Bank has no obligation to sustain a certain level of Romanian leu to

the pressures from public, institutions or companies interested in changing the exchange rate. Without NBR's interventions, the rate would have fluctuated even more, especially when there have been attacks on RON. Also, exchange rate is sensible to the prospects of macroeconomic environment stability. In these difficult circumstances, RON would have been weaker without Central Bank's interventions on currency market.

The present financial crisis, arisen mostly because of budgetary spending excesses and imprudent banking practices, favored the possibility of currency depreciation as solution for the Romanian economic recovery. The question is: does currency depreciation represent a sufficient incentive in order to stimulate economic growth?

Arguments that sustain the national currency depreciation rely, mostly, on its effects on international trade and current account situation: exports are stimulated and the national trade deficit is corrected. Currency depreciation is associated to an increased competitiveness of products and services exported abroad, and to decreasing imports. A growth in export volumes and smaller imports are desirable in the contemporary economy because they stimulate large amounts of currency into the country, with effects of additional demands for RON.

Exchange rate reflects the price of one currency expressed in another currency and is influenced by demand and supply of currencies. Rapidly increasing demand for RON leads to currency appreciation, which inhibits exports and stimulates imports, neutralizing initially desired effects. However, the lack of production capacities which can absorb additional demands for the national goods and services may annihilate the potential competitive advantages. In these circumstances, depreciation does not have the required effects on growth.

At the end of 2006, large capital inflows come from abroad, as effect of liberalizing the capital account. Therefore, RON appreciated to a record low of 3,11 units for one euro (reference course on 2 July 2010).

At a conference organized by the Faculty of Economics and Business Administration from Iasi, Mr. Napoleon Pop, board member of the National Bank of Romania said that RON appreciation in 2007 represented a threat for the Romania's balance of payments. The Central Bank interventions on currency market sustained the economic growth of that period. A speech like this, by a member of the Board of Central Bank was challenging for all students interested in the phenomenon of international finance and monetary policy, confirming the attention of authorities on the exchange rate, as a factor influencing economic growth.

Romania's national currency depreciation raises internationally attractiveness in terms of reducing labor costs. Accession to the European Union has brought an increasing confidence of foreign residents and companies to invest locally. Foreign investors may help Romanian economy

by creating new jobs, increasing taxes base etc., with effect on growth direction. In the context of fiscal and political instability, the investors withdraw the capital, focusing to other directions.

In addition, significant exchange rate depreciation can only worry investors, because they associate exchange rate evolution with the economy going. Depreciation of RON attracts investors, who buy cheaper Romanian securities. Financial instruments price decrease may have beneficial effects on the ownership structure of the Romanian companies; having strong companies means additional experience and professionalism to help business growth.

Banking activity in Romania is characterized by a high degree of euroisation – two thirds of the loans granted to the population and companies are euro-denominated. Depreciation against the euro may cut the public's appetite for loans in foreign currency, restoring the confidence in the Romanian leu.

In order to support the exchange rate, the Romanian authorities have committed to apply structural reform measures on the public budget, by reducing spending and increasing taxation, in exchange for contracting a loan from International Monetary Fund and the European Union, amounting 20 billion euro. An important part of the amount borrowed ended up in the reserves of NBR, to ensure exchange rate stability.

Appellants of maintaining the exchange rate relative stable argue that all the national financial efforts delay the recovery of consumption and hence, of economic growth. Based on the calculation method, mathematical logic supports their ideas: gross domestic product includes investments, consumption and net exports of a country. However, the increase in consumption must have an economic basis and has to be strictly correlated with an increasing productivity.

I believe that sharp currency depreciation has several negative effects, with implications on financial system stability. Financial institutions with elaborate balance sheets expressed in foreign currencies bear the currency risk and may increase the incidence of systemic risk to financial stability. By weight and interlinkages with other components of the financial system, the banking system is considered to be the its core element. Currency depreciation has a significant influence on the banking institutions through the large volumes of foreign currency-denominated (especially euro-denominated) loans to households and firms. Most clients who took such loans receive revenues denominated in RON. When making currency conversion, customers need more units of their national currency to pay bills.

Decreased revenues and increased unemployment have significantly deteriorated loan portfolios of Romanian credit institutions. A shock caused by RON depreciation against the euro would increase debtors' outstandings. Therefore, banks' financial situation would worsen, increasing the costs of new loans granted. An instable banking environment leads to slow economic recovery, the opposite effect of the depreciation phenomena.

The high degree of euroisation of the national economy refers to the large number of products and services priced in foreign currencies. Many Romanian traders (car dealers, mobile operators, travel agents, hoteliers and real estate developers) express prices in euro. The situation attracted the attention of Central Bank's experts in finding solution to increase monetary instrument's efficiency, because the inflation management becomes more difficult to control. Losses in purchasing power of domestic currency imply higher prices for those products whose value is euro-denominated, with a direct impact of increasing inflation rate.

Currency risk is an important topic for those companies involved in international trade. Many Romanian companies/firms need raw materials from abroad and RON's depreciation increases the cost of final products because of the material expensiveness. Comparative to the constant household income, prices increase leads to a higher inflation rate.

I believe that Romania needs a series of measures to regulate the expression of prices in other currencies than RON. Romanian authorities must apply such measures in order to disconnect the economy from exchange rate fluctuations. Instruments of Central Bank's monetary policy would become more effective if the volume of loans foreign currency-denominated decreased. Restoring confidence in the national currency is essential to eliminate some of the negative effects of the exchange rate depreciation. The role of Romanian commercial banks is that of promoting lending and savings denominated in RON.

Massive absorption of European funds is a healthy alternative to depreciation, which can compensate the lack of public investments. An economic recovery based on European funding does not have significant negative effect on the Romanian economy. Every financing project has a destination that must be respected. Generally, these kind of projects are focused on developing existing infrastructure, the human resources etc., without jeopardizing the goals of sustainable development.

The present financial crisis highlighted the fact that the Economic and Monetary Union (EMU) member states which use a single currency don't have a guarantee in avoiding liquidity crisis and insolvency. Budgetary excesses have brought countries like Greece, Ireland, Portugal and Spain to the attention of European authorities. Being part of EMU makes it impossible to use depreciation as a stimulus for economic recovery. But unlike other countries that are not part of the single currency area, these countries received special financial assistance. The European Central Bank has guaranteed securities issued by these countries with financial problems. Given that Romania has decided to adopt euro in 2015, exchange rate deprecation is not a long term option. Achieving this objective implies limited exchange rate fluctuations in a fixed variation margin.

Economic recovery should be based on incentives for small and medium enterprises, not only on training programs for prospective entrepreneurs, but with clear measures and compliance in aggregates payment by the Governments to private firms.

Analyzing and comparing all above arguments of currency depreciation have convinced me of the need to support the exchange rate in assuring a stable macroeconomic environment. Depreciation can provide a competitive advantage of Romanian products, but is a measure with major negative effects. I believe that a solid economic recovery should have as starting point a financial system sound and stable. Excessive exchange rate depreciation jeopardizes the financial soundness of banks and the borrower's ability to repay their loans. Therefore, it creates inflationary flare-ups, particularly dangerous for the economy of any state.

The financial crisis has "shaken the roots" of financial market components with negative effects on the real economy. Nowadays, I believe that Romania cannot afford a shock in the exchange rate level. The risk associated with such a measure is too high for an emerging country and it annihilates any export competitive advantages. Therefore, depreciation may delay the imperative of Romanian economic recovery.

# THE HR IMPACT ON ROMANIAN UNIVERSITIES EDUCATION QUALITY

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**Abstract:** *Higher education is the main supplier of experts who will lead in the near future the Romanian society and its integrated economy into the European Union. Obtaining a quality-oriented behavior is a major constraint in the actual process of real European integration of Romania, representing meanwhile a key aspect in gathering the economic prosperity as the nation longs for more than 20 years. A major importance in this respect has the educational component.*

*It becomes obvious that all of the universities` work must be oriented towards increasing the competitiveness of the institution both at nationally and internationally level. This can be achieved through quality work and results, a performing management, an appropriate financial policy of the rational resources` use and gathering of the new resources, strengthening the international dimension of business and encouraging a responsible attitude by the staff side.*

*For any higher education`s institution, the quality management must become the main path to increase its performance and prestige. Unfortunately, in many universities the quality management is confused with accreditation and the efforts are being made to achieving the standards` requirement, while continuous improvement is overlooked, followed closely by an element often not taken into account in the Romanian educational process: students` perspective.*

**Keywords:** Higher education, Quality assurance, Continuous improvement, Human resources, Students` perspective

**JEL Classification:** I23

## 1. INTRODUCTION

The duty of any institution from the national education system, regardless of its type or level is to provide a quality teaching, learning and research. This arises from the need to build an institutional culture of quality education in order to help students` personal and professional development, while contributing to the society welfare. Thus, the beneficiary of the education system is none other than the society itself. Educational institutions are preparing specialists which will be subsequently played to the economic, social or political circuit.

For a higher education's institution, the management quality becomes the main path to increase its performance and prestige. However, many Romanian universities are confusing the quality assurance with accreditation and the efforts are being made to achieving the standards' requirements, neglecting more important aspects, such as the **continuous improvement**. Another detail that led us to the current research is the low importance given by some of the prestigious universities to their students' opinion when it comes about the educational quality and also the quality of services offered by these universities to them. Thus, if in Western universities the students are in the middle of the quality improvement process, in many of the Romanian universities student's feedback is very little or not at all considered.

## 2. HISTORICAL REVIEW

The first step made for harmonizing the complexity and diversity of degree programs and structures in Europe's higher education system was the *Sorbonne Declaration* in May 1998. Although there were only France, Germany, Italy, and the U.K. who signed the agreement, the declaration was well received and set the stage for broader initiatives.

*The Bologna Declaration* signed by 29 European ministers of education on June 19, 1999 was considered an effort to promote "actions which may foster the desired convergence and transparency in qualification structures in Europe" (De Wit, 2000, p. 9). The next important moments were the *Lisbon Meeting* (2000), the *Salamanca Convention* (2001) and the *Berlin Meeting* (2003) during which it was established the European Network for Quality Assurance in Higher Education (ENQA). Services of the network to its members mainly include information sharing through newsletters, web sites, and bulletin boards, training workshops and advisory support, as well as seminars and special projects. The latest concerns in this respect were shown in the *Bergen Meeting*, which took place in 2005.

## 3. AIM OF THE RESEARCH

The purpose of this paper is *twofold*. Firstly, the research aimed the assesment of Alexandru Ioan Cuza University's students opinion regarding the educational process. The second aim was to identify the students' issues such as referral to impact the quality of university's education.

#### 4. RESEARCH OBJECTIVES

In carrying out this research, *three objectives* were pursued. In order to ease the expression, we shall use the abbreviation **UAIC** instead of „Alexandru Ioan Cuza” University.

**O1:** *Identifying students` perceptions regarding the education`s quality in UAIC.*

**O2:** *Identifying problems faced by students in university and university`s campuses with potential impact on the education`s quality in UAIC.*

**O3:** *Identifying the manner of how UAIC auxiliary staff`s activity affects the educational process`s quality in UAIC.*

#### 5. RESEARCH QUESTIONS

- 1. What do UAIC`s students think about the educational process`s quality in their University?*
- 2. What is the UAIC`s students` opinion regarding the quality of services offered by their university?*
- 3. What do UAIC`s students think about the auxiliary staff`s impact on their university education`s process?*

#### 6. HYPOTHESIS

**H1:** If the services offered by the University to its students are high quality, the education`s process in UAIC will be able to operate at optimum parameters.

**H2:** If the University management`s structures will take better account of the problems faced by students, both within the university and its campuses, the education`s quality in UAIC will be improved.

**H3:** If the University auxiliary staff would benefit from professional development courses, the education`s quality in UAIC will be improved.

#### 7. RESEARCH METHODOLOGY

The present research is a causal and objective representation of reality, its aim being to propose a representation likely to explain a situation. As a research method we used a qualitative method, *the survey sample*. Moreover, qualitative methods are the most useful research methods in human resources management, being also used in plenty other fields. The instrument used in this research was the *questionnaire*. The questionnaire`s items evaluation has been made using two types of scales: nominal scale and the Likert scale.



The questions are mostly closed because they are letting the subject to indicate one or more choices from the proposed answers. Thus, responses are more easily given, and data's processing and interpretation are simplified. The questionnaire contains both single-choice questions and multiple choice questions. There were also used questions such as prioritizing items.

In order to conduct this research, we chose the sample of UAIC's students. Questionnaires were distributed to students belonging to all of the 14 University's faculties, striving meantime to maintain a balance in determining the number of respondents from each faculty's students, due to the big differences existing between the numbers of students in some faculties.

## 7.1 Data collection

We aimed to assess views of students from all the years of study, and mainly from the elder ones, considering the latter as having a greater understanding of the issues explored by referencing to a richer and wider range of experiences. In the information's collecting stage, we considered two target segments: students living in UAIC's dormitories and students living in their own areas, considering that in this manner we can objectively observe all of the student's life aspects.

For the dorms students' sample, we conducted fieldwork, while for the other side of the respondents we have appealed to friends and acquaintances through which we managed to attract respondents and thus to cover the target segment. As necessary for information sharing and questionnaires' collection there were required ten days.

## 7.2. Sample

To achieve a representative sample, the drawn questionnaire was applied to a number of 300 students from all University's faculties, keeping a balance between the numbers of each faculty's respondents. The survey includes a series of 30 questions which assess student's opinion regarding the educational quality, the quality of services offered by university and the auxiliary staff's influence on the overall university educational quality.

Before the large-scale research, a **pilot study** was carried out among five different students in order to identify any potential problems with the questionnaires used in the study. After they were validated, the survey packages were distributed among 300 students. Of the 300 questionnaires that have been sent to the chosen students, five of them were returned partially completed. Thus, we considered reasonable for the sample to remain composed of 295 respondents, 200 living in dormitories and 95 in their own areas.

### 7.3 Measures

The measures followed the questionnaires. Each question was multiple choice answers, respondents indicating the variant or variants being more close to the academic reality. Regarding the type of questions such as prioritizing the options, a **five-point scale** was adopted ranging from **1** (strongly disagree or strongly unsatisfied) to **5** (strongly agree or strongly satisfied).

## 8. SUMMARY OF THE MAIN RESULTS

After interpreting the results from the questionnaires` processing, we could draw several conclusions.

The first issue would be the relevance of the theory taught in college. Regarding this aspect, at the UAIC`s level 24% of the respondents found it to be relevant, while 25% considered it to be inappropriate in the current practice`s context. The overwhelming proportion of responses to this question was directed to consider the theory as relevant only in some areas of interest.

It is interesting to follow an analysis at each faculty`s level. Thus, we could observe a number of faculties, such as Chemistry, Biology or Physics, especially the ones from exact sciences` field, whose students considered the actual theory as still being appropriate, something expected otherwise. Instead, the students from faculties such as Theology, Psychology, Philosophy, or Economics and Administrative Sciences (FEAA) considered the theory taught during the college as being irrelevant to the practical context.

For questions concerning the dormitories` activity, we have stopped only on the sample of 200 students living in dormitories. Thus, of the 200 respondents, only 7% said they were very satisfied with the accommodation activity in their dorms, 35% satisfied and 31% have adopted a neutral attitude. By contrast, 21% were shown dissatisfied, and 6% very dissatisfied.

As regards the view taken at the faculties` level, we can see that the most satisfied students by these conditions are coming from the FEAA, Geography and Theology, and the most unsatisfied are those from Chemistry, Psychology and Philosophy.

Referring to the relationship with the dormitories` personnel, 15% of the respondents declared themselves highly satisfied with its activity, 46% fairly satisfied, 24% rather unsatisfied, while very dissatisfied were shown to be 15% from the total of 200 respondents. In addition, 81% of the respondents have seen the activity carried out by this personnel as having potential impact on the UAIC`s educational process quality.

Regarding the secretariats` activity, at the University level only 3% of the respondents were very satisfied, 25% satisfied, 39% were neutral in this regard, 24% were dissatisfied and 9% were

very dissatisfied. The biggest problems that were seen by students as affecting the secretarial activity are the short time allocated to relating with students (25%) and the reduced secretarial staff (21%). There were also 72% of the respondents that considered secretarial activity as having a major impact on their faculties' educational process.

As refers to the medical facilities' staff dedicated to UAIC's students, 13% of the surveyed students have a very positive opinion about it, 27% have a good opinion, 39% have rather a bad opinion, while 9% manifested a strong negative opinion, adding that the medical personnel from this facilities shows gaps in training and moral conduct. 12% of the respondents have not used such services. In addition, 81% of the respondents stated that the medical services' quality provided by UAIC to its students may or really does impact over the university educational quality process.

Regarding the usefulness of professional development courses for the UAIC's staff over its education quality, 57% of the respondents considered that such courses' organization would positively affect the quality of education.

## **9. CONCLUSION AND DISCUSSIONS**

In the present research, there were treated many issues faced by the "Alexandru Ioan Cuza" University's students, also trying to realize a scan over the dormitories life, how are the secretariats running, the quality of care provided by the university, its dining services, guard services and the housekeeping activity both within faculties and their campuses. All these were observed in order to highlight the students' view regarding how the human resources from these organizations understand to do their job.

Moreover, we tried to identify if UAIC's auxiliary staff can influence the quality of university's education process, and if so, to what extent and in which way this influence is manifested.

Thus, a first conclusion which can be extracted would be the theoretical basis used in most of the faculties is considered by the students as outdated and in inconsistency with today's common practices. As a general idea, the respondents have opined that the manner of services' providing by the University to its students is likely to influence the UAIC's education quality.

Secretarial work is seen as deficient in all of the UAIC's faculties. Much of the Psychology and FEAA's undergraduate students believe that the secretarial activity hampers the educational process, instead of acting as its catalyst.

Cleaning service assurance both within the faculties and their campuses is seen as unsatisfactory, particularly in FEAA and Philosophy.

The staff from the university's medical facilities is seen as having poor training and moral conduct. Following these results it can be inferred that hypothesis no.1 is validated.

The respondent students stated that the activities implying auxiliary staff may positively or negatively influence the university's education quality. Meantime, the surveyed students considered staff's professional development courses as having a real impact on the university's educational process. These come to validate the third hypothesis.

Due to the total lack of similar research, the second hypothesis is to be verified in a personal further research, the current study going to serve as a reference point in a subsequent comparative analysis.

## **10. Recommendation and further research**

After processing the results, we could refer to the existence of some students' issues able to influence the quality of the University's education. Further, we provide a number of recommendations designed to improve the current situation.

In terms of secretarial activity and its personnel, we considered the opening of an information office in order to relief secretariats' work and to allow them to dealing with more severe problems.

Regarding the students' accommodation activity, we highly suggest a more rigorous check of the students' medical dossiers in order to get an accommodation place. This must be done for increasing the accuracy of the granting accommodations' process, the respondents seeing this activity as being poor managed and having corruption issues.

Another recommendations is the bibliography's enrichment and updating as possible, especially in the faculties that require it (E.g.: FEAA, Philosophy, etc.). The surveyed respondents considered that the difference existing between the theory taught in college and the common practices is one of the major problems encountered when they engage in a company.

A very important aspect is the medical services offered by the university, these being seen by the students as not having such a high quality level. Thus, we recommend providing professional medical services able to serve even in more complex cases.

This research is to be continued in the near future. Higher education quality could be also addressed from another perspective than human resources' impact, such as the doctoral studies' quality ran within "Alexandru Ioan Cuza" University.

This research could be also continued by anyone interested in the field, because from time to time the students' perspective must be required, if not from a formal position, at least from students' research.

In the end, we would like to highlight an aspect that characterizes the Romanian higher education system. We want to relate so much to the Western Europe education's high level, but we are neglecting one important detail: in those universities, the students are considered the most valuable assets and are treated accordingly in this respect. It would be ideal as within the Romanian universities things to be seen from the same perspective.

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# RISE OF MOBILITY PROGRAMS IN GERMANY DUE TO GLOBALISATION<sup>4</sup>

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**Abstract:** *Learning has come to the front position of the educational agenda in many countries of the world – the knowledge society, learning society, learning organization and so forth are the common terms now in the 21<sup>st</sup> century. The terms come into view in countless publications of the European Union and of many other countries in and outside the European Community.*

*The learning society is one of the products of globalisation and knowledge, learning and education are intertwined with global capitalism. Education is considered as a servant to global capitalism, enabling trans-boundary companies to gather more effectively in the knowledge society. Learning has become to a central task in governmental education policy in many countries and it is being treated as investment – adding value to human and social capital, resulting in employability and then in work, which makes an even greater distribution to the economy, rather than being treated as a natural human process that results in the improvement of people as human beings. Profound changes are taking place as a result of globalisation that is affecting the whole of the educational institution.*

*The objective of this contribution is to present Germany on its way to a knowledge society by examining the past and the present situation of Germany concerning mobility and furthermore mobility programs.*

**Keywords:** *mobility programs, Germany, globalisation, knowledge society, learning society*

**JEL Classification:** F02, O52, I21

## 1. KNOWLEDGE SOCIETY

Nowadays widely accepted by policy makers is the notion of the paradigm shift from industrial economy to knowledge-based economy. The generation and exploitation of knowledge is now the predominant factor in the creation of wealth. *For countries in the vanguard of the world economy, the balance between knowledge and resources has shifted so far towards the former that knowledge has become perhaps the most important factor determining the standard of living – more*

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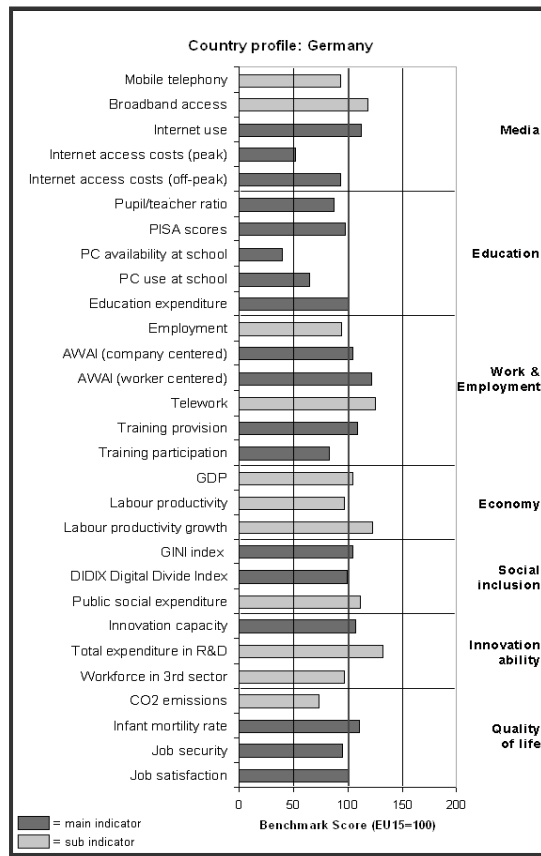
*than land, than tools, than labour. Today's most technologically advanced economies are truly knowledge-based* (World Bank, 1999).

The central view is that most economic value is now generated by trade in knowledge, rather than manufactured goods. Turn outs can be distinguished in two ways: Through the growth of highly skilled and individualized service industries and by a shift in what makes manufactured goods valuable.

The emergence of the knowledge society, building on the omnipresent influence of modern information and communication technologies, is bringing about a fundamental reshaping of the global economy. We are in a progress of the transformation of our economy and society. Knowledge has always been a factor of production, and a driver of economic and social development. Earlier economies depended, e.g. on knowledge about how to farm, to build or to manufacture. However, the capacity to manipulate, store and transmit large quantities of information reasonably has increased at an astounding rate over recent years. The digitisation of information and the associated pervasiveness of the Internet are facilitating a new intensity in the appliance of knowledge to economic activity, to the extent that it has become the leading factor in the formation of wealth. As much as 70 to 80 percent of economic growth is now said to be due to new and better knowledge (UNESCO, 2005).

Information and communication technologies (ICTs) are also facilitating a rapid globalisation of economic movement. In an increasingly global economy, where knowledge is about how to stand out competitively and information about who stands out, are both more readily available, the effective creation, use and dissemination of knowledge is increasingly the key to success, and thus to sustainable economic and social development that benefits all. Innovation, which stimulates new job creation and economic growth, is rapidly becoming the key factor in global competitiveness. Innovation essentially means the upcoming of new ideas about how to do things better or faster. It is about making a product or offering a service that no one had thought of before. And it is about putting new ideas to work in enterprise and having a skilled work force that can use those new ideas.

**Fig. 1 Current situation of the German knowledge society - using Euforia knowledge society advancement indicators**



Source: Korte and Meyer, 2003

It is a further feature of the knowledge economy that it increasingly relies on the diffusion and use of information and knowledge, as well as its creation. The success of enterprises, and of national economies, becomes increasingly dependent on the information infrastructure that is necessary for the gathering and utilisation of knowledge. The significance of broadband telecommunications infrastructure in this framework must be recognised. Knowledge has become the key resource (as electricity in the 20<sup>th</sup> century for the industrial economy). Knowledge has value, but so too does knowledge about knowledge. Creating value is about creating new knowledge and capturing its value. The most important property is now intellectual property, not physical property. And it is the hearts and minds of people, rather than traditional labour that are essential to growth and prosperity. Workers at all levels in the 21<sup>st</sup> century knowledge society will need to be lifelong learners, adapting continuously to changed opportunities, work practices, business models and forms of economic and social organisation. In this changing environment, holding the status quo is not an option. We move forwards and embrace the conditions necessary to underpin higher value economic activity, better jobs, and new social prosperity. Or we prepare to fall into relative decline.



The European Foundation for the Improvement of Living and Working Conditions has conducted a pilot study (EUFORIA) to promote a better understanding of the knowledge society. The subsequent will give a brief description of the current situation in Germany (Korte and Meyer, 2003).

Germany is well on its way towards the knowledge society. Knowledge society-related indices show that Germany is along with the top ten or fifteen countries worldwide and lines for the most part above or approximately the European average with reverence to a series of relevant performance indicators. The statistic shows that Germany holds an average position along with the EU Member States. Future development in Germany is described as quite high potential, but not being exploited at present. Some of the evaluated indicators appear quite promising regarding the knowledge society in Germany (e.g. willingness to self-directed learning, broadband access), others propose a forthcoming crisis (e.g. education system, unemployment rate). The country profile (Fig. 1) gives a more comprehensive overview of the situation, showing data for Germany along 29 knowledge society-related indicators. The profile indicates that Germany has a well-developed infrastructure and its citizens are progressively more provided with broadband access. The labour market is characterised by an increasing flexibility of work arrangements. Training provision is above average, but participation in training is still low. Nevertheless, there is a great willingness to engage in self-directed learning. Germany is among the best performers in terms of social inclusion<sup>5</sup> and a good performer concerning the digital divide<sup>6</sup>.

Generally speaking Germany accomplishes the average for the most part of the indicators. The country's performance in the area of education is, however, comparatively poor, which is also reflected in the combined PISA score<sup>7</sup>. Furthermore, research and development is threatened by a slow-moving economy and a loss of funds due to budget consolidation.

## 2. GLOBALISATION TRENDS EUROPE

Globalisation is the process whereby worldwide economic and social forces supplant those of nation and locality. It alters the relative economic position of particular countries and economies; it transforms the character of the social interactions and structures; it revolutionizes the requirements of an education and training system; and it changes the competitive position of particular education and training providers.

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<sup>5</sup> evaluated by the GINI index on income disparity, <http://hdr.undp.org/hdr2006/statistics/indicators/147.html>

<sup>6</sup> estimated by the DIDIX, the Digital Divide Index – A measure of social inequalities in the adoption of ICT <http://www.sibis-eu.org/sibis/publications/articles.htm>

<sup>7</sup> Euforia has measured the average PISA score on reading, mathematical and scientific literacy

Global economic competition comes about as the case of communication and the spread of skills increase the proportion of economic activity that can operate beyond national borders. As work is able to move wherever it is cheapest to hire labour, so individual firms and countries have to identify and battle to sustain their particular niches. In this world countries have to choose between low-value-added, low-skilled and low-paid production and high-value added, highly skilled and highly paid work. And while most developed countries face significant weaknesses in the skills base required to pursue the latter, they see the alternative as economical a socially suicidal.

Globalisation is also a social power. Education has always been one of the primary ways in which nations and communities established and maintained identities and values, but as travel became easier and more common, and telecommunication universal in the developed world, there is increasing contact between people of very different cultures. Europe in the 1950s and 60s saw a progression of waves of global immigration in the wake of the Cold War; the reunification of Germany and the collapse of Yugoslavia started new movements of population and ideas.

To minimize social and political tensions, an altered structure of learning is needed to enable people to understand and work with people with unfamiliar backgrounds and value systems, and to establish common notions of citizenship. While some migrant populations participate strongly in education and training as a way of integration and economic success, other remain apart, either because of cultural resistance or because their previous experience provides little preparation for participation in their new countries. The variety of national qualification systems intensifies this, since immigrants are often handicapped by lack of recognition of their previous qualifications, and the harmonizing of qualification systems through initiative like the “Bologna Process”, which aims to create a single European Higher Education Area encompassing 45 countries by 2010, has proved a difficult task, even in Europe. Globalisation is also an issue for the market in education and training. International activity in education is not new.

### **3. GERMAN INTERNATIONALISM**

Taking a closer look at Germanys past after the Second World War, German companies already became multinationals in the late 1940s even before major companies of other countries. This was mainly due to foreign occupation. Most of traditional German companies endured major damage to their factories and needed outside investments to flourish again. Two outstanding examples are the “Opel”-factory that was taken over by General Motors and the “Ford Taunus”, now part of the Ford conglomerate. These foreign takeovers included furthermore foreign managers, multinational sales and international research teams. Workers had to adjust to new work

practices and to foreign languages. Due to the Marshall Plan, by the early 1950s most of Germany was rebuilt. The huge German Company I.G. Farben, legendary for its connection to the mass murders in the concentration camps as producer of the gas Cyclone B, was broken up by the Allies into smaller companies. Due to the leading role of German companies in chemical and medical research and their access to international markets, all of these smaller companies boomed. The majority of people around the world are aware of names like “Bayer” (drugs), “Hoechst” (synthetic textile fibres) and “BASF” (high quality audio- and videotapes). Stainless steel cutlery and tools, electronics and optical products were sold and copied all around the world.

The high quality of German products opened markets all over the place and by the mid 1950s Germany became a leading export nation. Germany lived and is still living off its exports. Market development influenced the demand for language learning, which also had an impact on the curriculum of every type of school. The German school system has always been admired and imitated by other nations. It resembles a pyramid structure – only the best are allowed to continue towards a university or special school education. From the West of Spain to the East of the Soviet Union, the German gymnasium structure was the norm, rather than the British egalitarian system of public education. Consequences of the pride in the highly-educated people and the academic achievements stimulated a new commitment to scholarship, research and teaching. German teachers and professors, even today, are some of the best-qualified and best-paid in the world.

Germans always had a longing for southern, sunnier climates, as also reflected in the poetry of Germany’s greatest poet, J.W. von Goethe. Once affluent enough, beginning in the early 50s, they began to travel to Italy, Spain, Yugoslavia, Greece, Turkey, and later in even more exotic places. From their business or vacation travels, people brought back a hunger for various foods, fashions, literatures, music, etc. Young Germans, probably more than their counterparts in other countries, wanted to break away from tradition, which is easily explained because of the horrific German past.

Breaking the past, Germany is presently experiencing a decrease in population. At the same time, the 21<sup>st</sup> century knowledge society in Germany needs an increasing number of skilled workers and specialists. An additional two million workers approximately are expected to be needed until 2020. At the same time, the best talents can choose their centre of life across the world. They go where the best conditions are provided. It is important that Germany attract these top-class people. This applies to Germans just as it applies to bright minds from abroad. In the global competition is a need of qualified labour and particularly talented people who are willing to bear responsibility in state and society.

The availability of highly qualified labour is a decisive factor for success or failure in an ever stronger competition of the knowledge societies and it applies to Germany as to every other country. An innovation policy which is to live up to the challenges of global competition must

attach great importance to renewing and promoting education and training. Support for young scientists by institutions of higher education and non-university research institutions is therefore of particular importance.

The global influence of information and communication technologies is transforming our economy and society. But these technologies do not produce new ideas. All knowledge and learning ultimately depends on people.

#### **4. MOBILITY PROGRAMS GERMANY**

The countries that succeed in the 21<sup>st</sup> century will be those with citizens who are creative, adaptive and skilled. Investment in people and skills is fundamental not only for children and young people. The skills required for many conventional occupations are changing rapidly, and it is estimated that 80 percent of people who will be in our workforce in ten years time are in the workforce already. Lifelong learning must become a key public policy focus, and highlights the equally reinforcing importance of the economic and social thread to successful knowledge society development. General familiarity with digital technologies throughout society, and ready availability of the new skills needed by high-tech and knowledge-based enterprises is becoming critical to supporting innovation and underpinning sustainable economic development. And the knowledge society in turn can deliver better jobs and higher standards of living to support enhanced social prosperity.

At present, about two million students worldwide study outside of their home countries, a number that a recent study suggests will increase to eight million by 2025<sup>8</sup>. Nations' interest in student flow across borders has increased in the past couple of decades for a number of reasons. Industrialized countries are recognizing the need to provide their students with a global consciousness and with experience in other countries in order for them to compete in the global economy. The European Union has instituted policies that have increased the numbers of students studying outside of their home countries within the Union. With the expansion of the EU and the implementation of the "Bologna Process", which will harmonize academic structures within the European Union, these numbers should surge.

Also the national vocational training systems are increasingly subject to the principle of competition. Vocational training systems must have the ability to innovate, and remain flexible, but without losing sight of the needs for constant quality assurance, if they are to make their contribution to ensuring the international competitiveness of the economy and the businesses they

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<sup>8</sup> Student Mobility on the Map: Tertiary Education Exchange in the Commonwealth on the Threshold of the 21st Century (2000). London: UKCOSA: The Council for International Education

serve. For the European Union, the promotion of trans-boundary mobility in vocational training is thus a central element in the creation of a European education area. Mobility programs in vocation training tackle different levels of trans-boundary learning and innovation processes. Germany is facing the competition in the rapidly expanding world. The Federal Government is prepared with national policies relating to international study and cross-border higher education initiatives. They have been setting goals and putting policies into place.

Namely the largest funding organisation in Germany is the DAAD<sup>9</sup>. It provides considerable public funds at its disposal, simultaneously fulfils responsibilities in the fields of foreign cultural and education policy, development policy and national higher education policy, with the latter addressing the internationalisation of research, teaching and study as its main objective. Additionally, the DAAD performs several intermediary roles within the scope of European education policy – especially with regard to the European Union’s exchange and mobility programmes – and in implementing the “Bologna Process”.

The DAAD runs over 200 programmes, ranging from short-term research and teaching exchanges through to doctoral scholarships for (post)graduates and professionals from developing countries lasting several years, and from information visits by delegations of foreign university heads through to long-term regional programmes aimed at establishing efficient higher education structures in the Third World. A brief overview about major funds and programmes of the DAAD will establish the impression that Germany is well aware of the great importance of mobility programmes:

The Federal Ministry of Education and Research provides funds to the DAAD, which are intended to support German students and (post)graduates abroad, bilateral university lecturer exchange, programmes to promote the “Project-related Exchange of Academics” and “German Study Programmes Abroad”. Funding also goes to special programmes, including the model programme of “International Degree Programmes”, PROFIS and the “Funding for the Continuing Development of Higher Education and Science” programme (PHD). The Federal Ministry for Economic Cooperation and Development grants to promote young and junior academics as well as researchers to provide in-service training for experts and professionals from developing countries. The European Commission is the third largest source of funding, in particular with its mobility programme SOCRATES/ERASMUS. The funds provided by the Federal Institute for Vocational Training intend to make information, advice, evaluations and analyses available. Furthermore, the Institute serve as the national coordination centre for the university/industry cooperation in the EU programme LEONARDO DA VINCI II.

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<sup>9</sup> Deutscher Akademischer Austauschdienst

Additional to the mentioned programmes, the European Commission invented a new action programme in the field of education and training called “Lifelong Learning Programme”<sup>10</sup>. For the first time, a single programme will cover learning opportunities from childhood to old age. The Lifelong Learning Programme will be for the period 2007 - 2013, and is the successor to the current Socrates, Leonardo da Vinci and eLearning programmes. It has a budget of seven billion Euros to support projects and activities that foster interchange, cooperation and mobility between education and training systems within the EU, so that they become a world quality reference.

The Lifelong Learning Programme is an over-arching structure that is built on four sub-programmes – school education (Comenius), higher education (Erasmus), vocational training (Leonardo da Vinci) and adult education (Grundtvig). Grants and subsidies will be awarded to projects under each of these that enhance the trans-national mobility of individuals, promote bi- and multilateral partnerships, or improve quality in education and training systems through multilateral projects encouraging innovation. The targets have already been quantified and set in order to ensure a significant, identifiable and measurable impact for the programme. The numbers speak for themselves: Comenius: at least three million pupils in joint educational activities, over the period of the programme; Erasmus: three million individual participants in student mobility by 2012; Leonardo da Vinci: increasing placements in enterprises to 80,000 per year by the end of the programme; Grundtvig: 7,000 individuals involved in adult education per year.

Taking due account of the above outlined example programmes and strategies, Germany identifies and responds to most of the main challenges facing, namely the knowledge society; market functioning and competitiveness. Germany moves forward and embraces the conditions necessary to underpin higher value economic activity and new social prosperity.

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# AN APPROACH OF SME'S FINANCIAL PERFORMANCES FROM AN EUROPEAN PERSPECTIVE

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**Abstract:** *SMEs form one of the sectors mostly affected by this financial crisis, due to their lack of financial power. Still, a HVI analysis indicates this period as favorable to any SME that manages to identify and to react promptly to market changes.*

*Most of the times, managers tend to focus on the technical and practical aspects of the manufacturing process, underestimating the financial management and the real facts related to the operations under their control.*

*Starting from these thoughts, the hereby article approaches the real need for specific training in the field of financial reports and indicators aiming to draw the attention to the performances that may be achieved by the small and medium size enterprises, performances that mainly depend on the effective financial management, on the good understanding of basic accounting notions and on an adequate decision making process.*

*Even after 20 years of „capitalism” and democracy, the Romanian SMEs are still at a low level. This is not discouraging, although, having in view the lack of liquidities at global level, the possibility to get a bank loan is limited, and the over-exigency of commercial banks. Thus, the long-term loans designed for SME's and corporations become more and more difficult to get<sup>1</sup>.*

*Despite these, performances can still be achieved, even on the background of a deep crisis. Compared to the big companies from EU and not only, the advantage of SME's is their increased flexibility and their capacity to implement new services and to market new products. In the absence of higher levels of decision and approval, the decision-making process in SME's is easier and thus, more efficient. In this context, SME's may act promptly by applying solutions adjusted to the market conditions. (Ciobanu, 1998, p. 98 )*

*“The small entrepreneurs are the engine of the economy” is a well-known saying, but we are still far from reaching the level of the European Union.*

**Key words:** financial performance, medium and small enterprises, European Union, new perspectives

**JEL Classification:** G20, G23, H83, L32

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[<sup>1</sup>] [www.europa.eu](http://www.europa.eu)



## 1. INTRODUCTION

EU has awarded a special attention to small and medium size enterprises seen as the engines of an economy. Thus, the strategies and policies developed by now focused the enterprises, naturally from an European viewpoint.

Once integrated in the European Union, the Romanian SMEs should aim at implementing a structure similar to the community one. To understand how close to or how far from the SMEs in the European Union are the Romanian ones and to see the direction and way of progress in this sector, I shall analyze the progress of SMEs in the European Union. Thus, we shall create the benchmarks necessary to define the progress expected in Romania<sup>12</sup>.

The management of an enterprise, regardless its size, involves the selection of options among various possible alternatives that characterize the decision-making process. All the activities run by an enterprise have issues that require the selection of one option – the selection of products /services specific to the business field of the enterprise, the procurement of the necessary resources, their distribution by intended use, setting forth the limits of the activity development level, the selection of markets for these products /services, the establishment of profit value and its subsequent use etc.

The main purpose of a business, regardless its size, is the profit. To achieve these financial performances the entrepreneurs and managers award a special attention to the future, set down financial objectives and budgets.

The financial management of a business means the assessment, planning and control of a company's financial performances.

All companies have a "financial representation" that, eventually, materializes in financial indicators such as: turnover, profitability, liquidity, debts. The "financial representation" of a company varies in form, structure and content, depending on the references selected for reporting and analysis<sup>13</sup>.

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[<sup>12</sup>] [www.euroactiv.ro](http://www.euroactiv.ro)

[<sup>13</sup>] [www.deloitte.com](http://www.deloitte.com)

## 2. FINANCIAL PERFORMANCES FROM AN EUROPEAN PERSPECTIVE

The financial reports required by the *company's external uses* (State institutions, shareholders, banks) use various *standards of financial statements*, regulated by national or international laws.

This is necessary to create a shared framework for the analysis and assessment of the financial results achieved by companies from various business fields and regions in the world.

The information presented in the standardized financial statements (assets, revenues and expenses) is public and it reflects the company's performances in a specific time period according to law.

With regard to the financial reports required by the *company's internal users* (managers and specialists), these are adjusted and customized to the current needs of business management. The financial statements should be "construed" in a form and language that facilitate the access of all users, economists and non-economists, and they should emphasize the information relevant to the business analysis, planning and control (e.g.: sales by each location, by category of products and services, by type of customers).

Management reports are confidential, and the reporting periods are set forth by the management team (daily, weekly, monthly, quarterly, yearly).

The role of specialists in financial management is to develop this financial reporting system necessary to the overall business management.

These reports are not made randomly, but they facilitate the identification of profitable SMEs. For example, such reports drawn in Romania outlined and confirmed some already known facts, i.e. that SMEs form the category with the highest risk level in respect of debts, due to their poor financial structure, low financing possibilities, and the accelerated competitiveness in certain business sectors. Moreover, a large number of SMEs depend on a certain client or supplier<sup>14</sup>.

Another major gap between the Romanian SMEs and those from EU is represented by productivity (as added value per employee). If the productivity recorded by the SMEs from EU with

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[<sup>14</sup>] [www.euroactiv.ro](http://www.euroactiv.ro)

less than 50 employees is of EUR 39,000 per employee, this indicator is four times lower in Romania (EUR 9,400 added value per employee)<sup>15</sup>.

A strategic business management focuses the long-term development and strengthening with the following major objectives: an increased turnover, the achievement of planned investments and the company promotion in the target market.

These strategic objectives are the grounds for the elaboration of various "action scenarios", followed by the necessary funding and the identification of the optimal financing structure.

The calculation of the necessary funding requires information on the annual investment value, while for the establishment of the financing structure, the strategy on dividends distribution should be known.

The constant aim of the current business management is to maximize the sales and profit on short-term (1 year).

The achievement of maximized sales require the identification of the main commercial coordinates: the range of products and services, target markets, target customers, competitive advantages, the level of price and tariff, the marketing plan.

A maximized profit requires the analysis and optimization of costs incurred by all the company's internal and external activities: procurement, storage, distribution and merchandise, production costs, marketing, advertising and publicity costs, administrative costs. (Onofrei, 2000, p. 105)

The size of the business profit is the result of management actions and decisions of each company department.

The financial performances of the business are influenced by the annual objectives and strategies of the company, namely: commercial credit policies (credits to clients and credits to suppliers), strategies on rebates and fidelity discounts, on storage and cost calculation, amortization and financing policies<sup>16</sup>.

All these objectives, policies and management strategies should be understood and harmonized in order to achieve a balanced business development.

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[<sup>15</sup>] [www.deloitte.com](http://www.deloitte.com)

[<sup>16</sup>] *Idem*, p. 132

The role of the financial management is to create a management reporting system that provides an efficient business development. This system includes two major elements: economic analysis and the financial diagnosis, the financial plan and the budgets of the company.

These economic analysis reports facilitate the economic assessment of processes, in the view of the relation between the outcomes achieved and the resources used in a pre-established previous period.

These permanent analyses facilitate the identification of "strengths and weaknesses" in the company activity.

For example, for the analysis of the company sales, there can be elaborated periodic reports on sales progress and structure by category of products and services, by distribution channels, by outlets, by category of customers etc<sup>17</sup>.

In addition, the analysis of sales effectiveness shall include the assessment of the management strategies that led to these performances, i.e.: the applied rates, tariffs, discounts, payment terms.

The cost analysis implies the elaboration of periodic reports focused on the analysis of the progress and structure of costs by various management requirements: based on their interdependence with sales volume (fixed and variable costs), depending on the nature of expenditure (material, financial costs, expenditure on personnel), on cost generators and allocation (direct and indirect costs)<sup>18</sup>.

I should remind you that an economic analysis is complete and accurate if it also presents the context of the business environment where the company runs its activity: fiscal regulations, the evolution of demand in various business fields, the inflation rate and the exchange rate.

The economic and financial indicators that summarize the company's performances are calculated based on these economic analysis reports: indicators of profitability, liquidity, solvency, inventory etc.

These economic and financial indicators facilitate the elaboration of the company financial diagnosis, "the financial health condition" of a business, that helps to the elaboration of future development strategies.<sup>19</sup>

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[<sup>17</sup>] [www.zf.ro](http://www.zf.ro)

[<sup>19</sup>] [www.europa.eu](http://www.europa.eu)

Although 45% of the companies admit that EU accession provided them the opportunity to enter other markets, presently, only 1.99% of these companies sell their products /services in other European countries and 8.52% have targeted the EU market for this year.

The percentage of companies that aim at entering the European market is not unusual having in view their management level and their economic and financial capacity.

Thus, most SMEs (77.47%) focus this year only the local and domestic market; 47.13% of them act only on the local market and only 0.88% of SMEs state their intent to access other markets outside Europe. Romanian companies are mainly targeted on the local market due to the opportunities to be created by the companies subsequent to their application to European funds.

The external funds or direct foreign investments generate new jobs, salaries, and thus, purchase power. These reasons are sufficient to the small local entrepreneurs to put stake on the domestic market and to postpone their entrance on external markets.

Also, 6.5% of SMEs consider this year to be difficult. Probably, the companies that stated the absence of performances this year shall also be the bankrupted ones recorded during the same period.<sup>20</sup> With regard to the difficult situation faced by the Romanian business environment, the owners indicate the bureaucracy as the main problem, despite the fact that the number of owners who argue its efficiency decreases each year. At the time being, two of five SMEs face major bureaucratic difficulties, while tax related issues hold the second position in the top of difficulties. Human resources represent another major problem for the companies, and 35% of them state they have difficult situations in this regard.

SMEs present a high risk level, having in view that approx. 70% of the debts to the bank belong to SMEs, stated Aurel Saramet, the President of the National Guarantee Fund for SMEs Loans (FNGCIMM)<sup>21</sup>.

The SME sector still represents a high risk for banks, and this is an explanation for the low percentage of small and medium companies with bank loans, as the FNGCIMM president stated.

On the other hand, the domestic SMEs are somehow prudent with regard to the application for loans, and over 70% of the companies use the self funding, and this is a raising trend. According to the White Book of SMEs, besides the companies who apply for a bank loan, almost 26% of the total number of SMEs use the lease services, 5.5% of the companies received grants, 4% applied for

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<sup>[20]</sup> [www.deloitte.com](http://www.deloitte.com)

<sup>[21]</sup> [www.zf.ro](http://www.zf.ro)

loans from specialized financial institutions, 1.4% used factoring services for funding, and under 1% of enterprises accessed the National Guarantee Fund for SMEs Loans. (Ciobanu, 1998, p.111)

During this economic crisis, the management of financial performances helps the companies to rapidly overrun the crisis, by strengthening the competitiveness administration for new customers and for new markets. This is the conclusion we can reach to, after the facts presented so far. Romania is still one of the countries with a low innovation level, but it has great opportunities to recover rapidly the gap to the European average. “The Romanian enterprises can be themselves benchmarks for the European champions of growth, if they use effectively the tools they have”.

One of the most important challenges Romania had to face after the European Union accession was to professionally improve the financial resources management. This is more important, since the resources available are bigger, following the pronounced economic growth and the access to the grant funding resources provided by the European Union. On the other hand, a rapid integration of Romania to the common European currency area raised the need to improve the operation of the entire Romanian financial system, in order to comply with all the requirements.

“Considering the results achieved in the absorption of European funds (quite low, so far), and the low outcomes in the reach of financial stability targets, we should obviously apply urgent measures to improve the use of public funds – both of Romanian budget and those provided by the EU. Romania faces a period of deep changes in the field of financial management, mainly generated by its position of EU recently entered country.

”If the transformation process is successful, the country may also benefit from the opportunities provided by its EU membership.”<sup>22</sup> By admitting these lacks, the officials state that the no. 1 priority for the development of financial performance in the following three years is to raise the capacity to provide more relevant and updated financial information to support the decision-making process.

### 3. CONCLUSIONS

According to the study, the organizations need a more complex financial scheme that would support the increasing salary costs, in order to balance the needs of elderly people compared to young generations, to facilitate an increased focusing on the outcomes and transparency.

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[<sup>22</sup>] [www.deloitte.com](http://www.deloitte.com)

67% of the respondents consider the financial management as a stimulating factor in the organization changes, while 52% consider that the financial department is the most important factor that allows the organization to focus more on values<sup>23</sup>.

“The Government financial experts should provide strategic support, in order to coordinate the procurement programs, policies and decisions,” stated Greg Pellegrino.

There is still an optimistic perspective. Beside those named “Financial Masters” by Deloitte specialists, another 27% have reported significant progress of their financial capacity: on the one hand, these 27% comply with the law, they publicly report their program performances and they balance the capacities, the costs and the level of services in order to fulfill their financial obligations.<sup>24</sup> On the other hand, they still have to work on building their capacity to generate greater value and to help the governments to make better strategy selections, and to improve the processes and performances.

“The Government leaders may improve the operation of programs, by strengthening the financial functions within their organizations.”

“There is evidence on the progress made and we found models throughout the world that may be successfully replicated. There is a huge difference, but there are also governments that show the way to financial performances”.

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[<sup>23</sup>] [www.europa.eu](http://www.europa.eu)

[<sup>24</sup>] [www.zf.ro](http://www.zf.ro)

# INTRA EUROPEAN TRADE FACING THE ECONOMIC CRISIS

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**Abstract:** *Trade is one of the key factors directly linked with development and especially with regional development. We take upon analysis the EU case in order to see how the international financial crisis has affected the mechanism of international exchange of goods and services. We focus mainly on intra-European trade and how the policy framework is correlated with the changes revealed. Although the financial crisis had a major impact upon trade, policymakers can diminish its aftermath by correlating their policy directions and concrete actions.*

**Keywords:** intra-EU trade, financial crisis, regional development

**JEL Classification:** F10, F15, O24

## 1. INTRODUCTION

One of the policy areas of the European Union is External Trade. The defining words for trade in general, as stated by the European Union, are: “Committed to free and fair trade”. The European Union was born under this belief more than 50 years ago and it is still one of the central pylons on which it functions today. Nowadays, the EU is one of the most important actors in the international and regional trade area alike. The EU alone counts for roughly 20% of the international exchange of goods and services.

The general belief regarding trade is that it is a win-win situation. Moreover, free trade is especially seen as the prime factor of world growth. Amongst the benefits of free trade we find:

- a broader range of products for consumers;
- lower prices and better quality of products (all thanks to competition);



- fair competition amongst all participants.

These are only some of the benefits of trade, free trade especially, and the EU knows that better than anyone. The liberalization of markets within the EU had an outstanding benefic effect on the development of the region and its prosperity. The removal of trade barriers and tariffs within the EU was the starter point of growth and development.

Inside the European Union trade is linked with development. This means that the EU's trade policy is closely linked to its development policy (as stated on the official site of the EU). Taking into consideration the trade and development strategy, it seems that the EU is focusing its resources on establishing good trade relations with the developing countries groups. With the major trade partners it seems that the EU is not undergoing such an effort, leaving trade with states like the USA and Japan governed only by WTO regulations.

## **2. SHIFTING TO A INTRAREGIONAL PERSPECTIVE**

The intra regional perspective doesn't differ much from the international one. The only thing that is different is the focus of the analysis, which now is much more specific.

The EU has shown that regional integration affects in a positive way the commercial relations between the states that are part of the union. The successive waves of integration are the perfect example and the willingness of the other european countries to join the EU comes to stress this point of view. The growth in terms of intra regional trade can have further consequences in the field of economic development. The main benefit that arises thru the combination of integration and trade development (Ranchev, 2003) is a high incentive for foreign investors, thus accelerating commercial exchange of goods and services.

Another thing that is worth taking into account is the feedback effect that occurs at a regional level, meaning that an increase in regional income will result in an increase in imports (Armstrong and Taylor, 2001, p. 20). Since these particular imports are another region's exports, this will raise income in other regions, which in turn will increase their own imports. Actually, this feedback effect is translated into an increase in intra and inters regional trade with clear effects in the regional development area.

## **3. EMPIRICAL FINDINGS ON TRADE**

One of the main purposes and targets of the integrationist process is referred to trade, mainly external trade of the countries. Since the european integration, trade flows between member states has grown in big rates, as a result of an efficient trade policy applied in the union. This is available

also for the trade between the European countries (called intra-EU trade) but also the external trade of the EU, as it is mentioned above the total international trade as a sum of the national values rises globally to almost 20% of international trade. This means that EU is the most important actor on stage.

Since the first's steps of integration, the trade level has known a constant and permanent ascending trend. Between 1998 and 2008 the volume of world trade grew at an average annual rate of nearly six percent, twice as fast as world GDP. In 2009 the collapse of global demand brought about by the economic and financial crisis will, according to the WTO, result in a decline in world trade of 10 percent, the largest such contraction since World War Two (Sapir, 2009, p. 89)

It is obvious that we are facing nowadays one of the worst crisis that human society ever faced, one that has implication at multilevel dimensions. In order to give a broad view on the main turning points in the evolution of the economic and financial crisis, we can present you a synthesis made by Agnès Bénassy-Quéré, Benoît Coeuré, Pierre Jacquet and Jean Pisani-Ferry in the article "The crisis: Policy Lessons and Policy Challenges":

**Figure 1 - Stages in crisis development**

<b>Date</b>	<b>Events</b>
2006 – Summer 2007	Localized credit concerns in the US <ul style="list-style-type: none"> <li>• Rising defaults in riskier housing mortgages</li> <li>• Falling prices of lower credit tiers of some credit securities</li> </ul>
Summer – Autumn 2007	Initial cracks in confidence and liquidity strains <ul style="list-style-type: none"> <li>• Interbank rates rise sharply</li> <li>• Failure of two large hedge funds</li> <li>• Run on British bank Northern Rock</li> </ul>
Autumn 2007 – early Summer 2008	Accumulation of losses and continuation of liquidity strains <ul style="list-style-type: none"> <li>• Severe mark-to-market losses in trading books</li> <li>• Collapse of commercial paper market</li> <li>• Structured Investment Vehicles (SIVs) brought back on bank balance sheets</li> <li>• Worries about liquidity of major financial institutions</li> </ul>
Summer 2008	Intensification of losses and liquidity strains <ul style="list-style-type: none"> <li>• Mark-to-market losses and liquidity strains escalate</li> <li>• US agencies Fannie Mae and Freddy Mac insolvent</li> </ul>

	<ul style="list-style-type: none"> <li>• Funding problems of UK mortgage banks intensify</li> </ul>
Autumn 2008	<p>Massive loss of confidence</p> <ul style="list-style-type: none"> <li>• Bankruptcy of US investment bank Lehman Brothers</li> <li>• Loss of confidence that major institutions are too big to fail</li> <li>• Bankruptcy of Washington Mutual in the US, Bradford and Bingley in the UK, Icelandic banks</li> <li>• Almost total seizure of interbank money markets and short-term funding markets</li> <li>• Rescue of European banks Dexia and Fortis</li> </ul>
Spring – Summer 2009	<p>Crisis transmitted to real economy</p> <ul style="list-style-type: none"> <li>• Sharp decline in industrial production and GDP</li> <li>• Series of financial crises in emerging Europe as capital flows suddenly stop</li> <li>• <b>Collapse of world trade</b></li> <li>• Slow normalization of interbank markets</li> </ul>

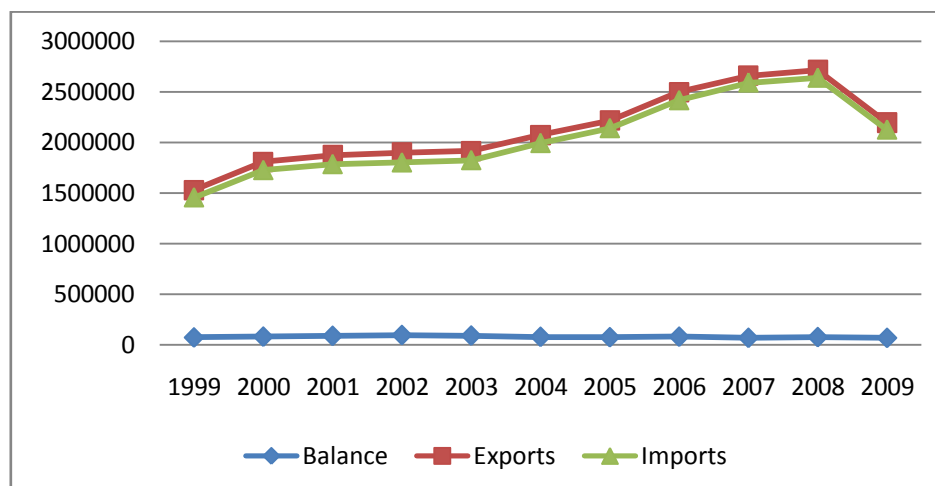
Source: Adapted and updated after Financial Services Authority (2009)

In the inferences of their study, the authors conclude that “there are three different, non-mutually exclusive lines of explanation for the crisis: wrong incentives in the financial sector, unsustainable macroeconomic outcomes, and misunderstood and mismanaged systemic complexity.”

Taking that into consideration it is easily to realize the deep implication of the crisis mainly in the global economic world. So trade has been in constant decline since the beginning of crisis. Of course it is about the entire trade system, taking into consideration the EU case of external trade flows.

In terms of intra trade, facts show a different case. Although as it can be seen in the figures below, the level of dispatches and arrivals is falling down, but not in a very high percentage (Figure 2), and also the percentage that intra-EU trade has in the total value of trade stands at more than 65% (Figure 3).

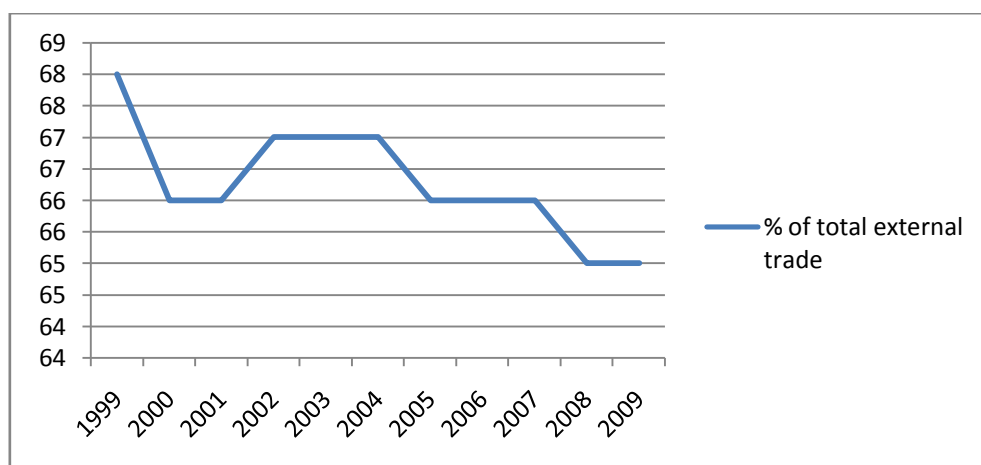
**Figure 2 - Intra-EU27 trade (million EURO)**



Source:EUROSTAT,<http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tet00039>

The overall balance remains positive, which shows a healthy environment in the european space, aspects concerning the application of anti-crisis measures are really taken into consideration.

**Figure 3 - Intra-EU trade**



Source:EUROSTAT,<http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=0&language=en&pcode=tgigs350>

Comparing the two evolutions, external and internal trading system, we can notice first of all that the intra-regional trade system in the EU didn't face major interference, so the evolution in the crisis period isn't that much affected. That means we find in Europe a custom union that has strong pylons at its base, with efficient policies applied. We can suppose that negative evolution of intra trade can stand on conjectural factors, and although crisis affected really serious many of the european countries, their collaboration at regional level wasn't disturbed in high percentages. The

European Custom Union is carrying on its main tasks of trade liberalization, even though on local level. The extra trade faces in this crisis period the same structural changes that appeared in most of the economic activity. This is because national states are affected by crisis in different ways. Some of them, countries like Germany or France, have strong and healthy economies and balance the other ones that are facing real decrease.

#### 4. CONCLUSIONS

From the data presented above it is clear that the upward trend that trade followed was broken in 2008. This takes us to the first challenge, the economic and financial crisis (Sapir, 2009, p. 90). Even though economic growth will be present, the unemployment figures will put high pressure on legislatures, that translating inevitably in protectionist measures. That being the case, the next period will uncertainly be a testing time for the trade policy of the EU.

Another challenge that is strictly related to the intra-regional trade framework is the EUs domestic organisation. When protectionist measures will surface and influence the trade system, the benefits of free trade will be countered. In this scenario, the protectionist measures will surely benefit some and unfortunately will raise the costs of others. Like in most cases, the costs will be supported by consumers, applying to the existing social pressures.

Until the Lisbon Treaty, the EU trade policy has been in the hands of the Commission and the Council, conducted through a process, that most of the times, was not transparent enough. Since the Lisbon Treaty (1<sup>st</sup> of December 2009), the European Parliament has gained enough power in order to influence the way in which the trade policy related measures are implemented. This will surely increase the transparency.

To face these challenges, EU needs to work closely with all trade partners and international organizations alike by trying to keep the protectionist inclinations to a minimum, although social pressure will be high. An important measure in this direction would be the finalization of Doha Round.

Finally, the implication of the European Parliament in the trade policy area will surely bring more transparency and such an effort should be supported by the Commission and the Council. Furthermore, a correlation amongst these three institutions must be achieved related to the trade policy aims. Efforts must be directed to preserve and promote the free market and free trade. Strong commitment in this direction is more important in the case of the EU than in any other situation because of their trade policy motto: "Committed to free and fair trade".

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# FACTORS THAT INFLUENCE THE LOW RATE OF STRUCTURAL FUNDS ABSORPTION IN ROMANIA

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**Abstract:** *In the Strategic report for 2010 concerning the application of the programmes for the period 2007 – 2013, it can be observed that Romania is situated on the penult place regarding the allocation of the amounts for the selected projects, with a percent of 14% comparing to the EU average of 27,1%. This low rate generates a series of questions: “why?”, “who is responsible?” This considerable gap is sustained by several internal and external factors, which block us from having encouraging results: **internal factors**, at the beneficiary’s level and **external factors**, at the level of the institutions responsible with supervising and implementing the projects.*

*With this essay, by identifying the factors which influence the absorption rate of the Structural Funds in Romania, we intended to make a first step in solving this problem, which requires a special attention.*

**Keywords:** Structural Funds, absorption rate, financial contribution, reimbursement request, Management Authority, Intermediary Organism

**JEL Classification:** F35, O52

It happened several times to have at disposal an important amount of money which we wanted to invest. The first thing that comes to our minds is: “What should we do with this money?” Some people would like to buy houses, others desire a car or even think about investing in professional performance. The important is the moment when we think about a real need, which we could satisfy with an available amount of money. If we consider the goal and not the existence of that money, then we take into account the circulation and the efficiency of that amount in assemble.

Similar to the facts presented above is the case of the Structural Funds. Most people consider the Structural Funds as a “money avalanche” and they forget the real reason of this opportunity.

Lately, lots of people, journalists, politicians, managers of small and medium enterprises, magistrates have been preoccupied so much by the Structural Funds absorption, that the real purpose of this money became a secondary interest. They all insist on the great opportunity that Romania has in accessing billions of Euros in a context characterized by economic and social gaps, poverty and catastrophic infrastructure.

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The economic, financial and social situation of Romania should generate a high rate of Structural Funds absorption. But, unfortunately, we have a proportional relationship between the absorption rate and the economic development degree of our country. The worse gets Romania's situation, the lower will be the absorption rate.

The very low rate of Structural Funds absorption in Romania, of 12,41 %, after the first 3 years since the adherence, causes a series of questions: "Why is Romania situated on the penult place, followed by Greece, in absorbing Structural Funds? Which are the factors that accentuate this low rate? Why isn't there a good relationship and communication between the institution responsible of implementing the projects and the beneficiaries willing to help reducing the existing economic disparities?"

In order to understand who or what generates the low rate of Structural Funds absorption in Romania, we must analyse their positive and negative elements. The positive part consists in a great number of financing requests sent for approval by applicants – almost 15.000 projects presented during the last 3 years. The negative parts seems to be the winner, being represented by the effective payments and the number of contracts – only 2.200 projects have been contracted during 2007 – 2010, almost seven times less than the number of the presented projects and the values of these projects cover 55% of the allocated sums. If we talk about the sums paid effectively, they represent 10% of the allocated amounts.

This low percent is caused by several factors, such as: the difference between signing the contracts and the actual start of the projects, incorrect documents presented when reimbursing the expenses, a reduced number of persons specialised in checking the technical and financial aspects of the projects approved, very few monitoring visits at the beneficiary's office, the disregard of the financing contracts closed between the beneficiaries and the Management Authority.

In our opinion, there are two types of factors that influence the Structural Funds absorption in Romania: **internal factors** - related to the beneficiary - and **external factors** - related to the institutions, which monitor the implementation of the projects.

**The internal factors**, which contribute to a low rate of the Structural Funds, are emphasize in the two stages of the management cycle of a project: in writing the financing requests and in implementation.

The greatest disappointment appears when we acknowledge that the project has not been written to solve a problem, which could not be handled by the applicant by himself, with his own funds. When the Management Authority observes that the applicant has the financial resources for satisfying the purpose and would not need irredeemable financing, the project is rejected.

When writing some projects, the needs of the target groups, the chosen means and the necessary resources are ignored. This factor can be exemplified by the attitude of a company



manager who urgently needs to modernise some tools, but he prefers to write a project for chances equality at the working place. What is the reason why the manager does not consider the real need of the target group? Unfortunately, the evaluator does not know this situation and approves the project for respecting the chances equality at the working place, when the real need would be to buy/modernise the tools.

Another negative factor would be the partners' lack of involvement in writing the projects. They find out after the signing of the financing contract that they are partners and that they have to collaborate in reaching the indicators. Most of them, after signing the contract, they start to impose some conditions, they are discontent, they start threatening to leave the project and all these facts generate divergences and problems concerning the implementation of the project by the beneficiary. These revolts constitute a perturbing factor, which generates panic and stress for the beneficiary and blocks the optimal development of the activities planned when writing the project.

The lack of efficient communication with the institutions offering consultancy, during the writing phase, leads to rejection but also to approving some projects with wrong goals or irrelevant sections, which would require a lot of time and stress for correction. Unfortunately, there are no sanctions when offering such incorrect information, because most of them are communicated verbally, by phone. The institutions avoid offering information in writing, by email for instance, for a better protection.

Another factor, which is reminded often, is the fact that the potential beneficiaries don't know how to write projects. In our opinion, this affirmation is sustained by the institutions responsible with the informing and the publicity of these funds and it is not entirely true. But, from real cases, there are managers who have managed to write successful projects only after project management training. It is intolerable to continue saying that, after 3 years since the adherence, Romanian people don't know how to take advantage of the irredeemable financing. It is possible, indeed, that they wouldn't assume the responsibility in implementing the projects, if they start from the premise that the writing of a project is followed by the easy part. Totally wrong! What had been written into the project must be accomplished exactly with responsibility and correctitude.

In the category of internal factors we could include also the beneficiary's attitude, from the moment he signed the financing contract with the Management Authority. Some are scared, others have exaggerated when writing the projects, knowing the fact that if they impress, their project will be approved for sure and this is reflected in a negative manner when implementing.

If you are just a little nervous when writing the project, at the implementing phase you will experience some sensations never known before. But all these are caused by the beneficiary's attitude and by the institutions that manage the survey of the contracts in progress as well. The most obvious mistake, which leads to making the implementation difficult, is the fact that the beneficiary

and the management team do not know, do not read carefully the financing contract. This makes the work harder for the implementing team and for the Intermediary Organism as well, the last one has always the task to remind the first ones what is written into the contract.

Some applicants discover the mistakes they made during the writing only at the implementation stage. A relevant example would be taking some too pretentious commitments, the indications being impossible to achieve. And, in this case, they have to present some pertinent arguments before the Intermediary Organism, for justifying the impossibility of reaching the target group and the planned indicators.

The most important factor, which contributes to the low absorption rate, is represented by the applicant's own financial contribution. In time, this became a real burden for the beneficiary and there were cases in which he/she was forced to cancel the financing contract with the Management Authority. Lots of voices ask how is it possible to get here if we are talking about irredeemable financing. The explanation is simple. For the majority of projects, beside his own contribution, the beneficiary has to own funds for developing the activities, until the eligible expenses will be reimbursed. Until this point things seem simple, but the problem starts when sending the reimbursement requests, when the money arrive effectively to the beneficiary after several months.

As an internal factor we will remind the negligence and the impassibility manifested by the beneficiary. The necessary documentation for the reimbursement requests is incomplete, has mistakes or does not follow the rules imposed by the Intermediary Organism. This way, the applicant receives letters asking for clarification and the date for sending the reimbursement request is delayed. If the Management Authority is obliged by contract, to reimburse the expenses in 45 days, this date is NEVER respected. From that moment, the beneficiary discovers that he does not have in his own safe the necessary funds to continue the project and he has to turn to loans (for which the rate of interest is not an eligible expense) or he is forced to give up the project. One case like this is enough and if the news is spread it generates an atmosphere of fear and doubt concerning the irredeemable financing.

The **external factors** that influence the absorption rate appear in all the stages of the project management but especially during the selection and implementing phases.

During the selection phase, a serious problem, generated by the institutions delegated with this task, is the time gap between the moment of presenting the financing request and the selection result. This mistake should be assumed by the institutions, because they should verify if the project could still be developed or not, if the applicant has kept his technical and management capacity to run it. Maybe during this period modifications had occurred, people had been dismissed, the management team had changed, or even the idea that generated the project is no longer a necessity. This factor affects the ones who determinate it as well. All the modifications indicated above must

be declared, with justifying documents, tones of paper consumed for nothing, making the work of the Intermediary Organism even more difficult.

The Management Authority/The Intermediary Organism justifies this delay by the reduced number of staff inside these institutions. They claim that they have a lot of unoccupied or inactive jobs because of the low salary. They have a fixed norm and don't get paid according to the performance or the number of projects approved so it is not in their interest to make things work better. It is curious that we want as many projects approved as possible, but the institutions assigned with their supervision complain about the too big number of requests and the impossibility of answering to all the requests. And, in this context, it has been decided that the Intermediary Organism should take over some of the attributions of the Management Authority. But the positive effects are delayed.

Another factor is represented by the lack of a strategic plan at the institutional level. The beneficiaries observe permanently on the website of the institutions the appearance of new instructions, without them being informed previously. The majority of instructions only make the optimal development of the activities more difficult. For instance, the projects presented during the year 2009 had to follow the directives of the decree no. 3/185/2008 regarding the eligible expenses for POSDRU, but a new instruction presented by the decree 1117/2170/August 2010 has appeared regarding the eligible expenses inside POSDRU (published by the Official Monitor, Part I, nr. 596/23 August 2010) which is mandatory to be followed also by the beneficiaries who had established their budget according to the initial document. Indeed, the new decree brings many improvements, but the beneficiaries who had already decided the budget should not be obliged to modify the activities and the specific expenses as well. Though at the institutions level, the beneficiaries have addressed many complaints, they receive answers such as: if the new decree will not be respected, the eligible expenses will not be reimbursed.

Funny and not really funny is the situation when the beneficiary applies a new instruction and, after a week of work, another and totally different direction appears and he has to start everything all over again. From our point of view, we don't deserve this opportunity, this irredeemable financing, because the existing bureaucracy and the lack of interest place us where we belong: to the penult place, preferred by Romania, as it seems, for all the domains.

The beneficiary admits his mistakes and sends the corrected documents when he is asked for but in the moment when the responsible person for the reimbursement request answers that the delay reason is a vacation and that it will take a while until he will receive the money, this only generates discouragement, stress and distress.

The idea of this essay was not to highlight only the negative part of the Structural Funds. These funds should be considered as a beneficial thing which is accorded to Romania for improving

the economical, social and political situation. We wanted to prove that our country does not know how to take advantage from a “free of charge” opportunity. The lack of ambition, responsibility, honesty, trust, shows that Romania is not exactly that “land of choice” as some consider.

We all know how to express on paper what we don't have, our real needs, we know how to read a contract, an instruction, a clarification letter, we know the laws concerning the public purchase, the decree regarding the eligible expenses, but we are not able to apply all our knowledge with correctitude and seriousness. We should not complain about having one of the lowest rates of Structural Funds absorption rate, we should be glad that the mediocre amount that had been offered to us so far has not been retracted by the European Union.

# THE DYNAMICS OF FOREIGN DIRECT INVESTMENT IN ROMANIA AFTER EU ACCESSION

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**Abstract:** *Identification of potential investment of the countries in the current context is one of the main important problem of the world economy because the investments, particularly foreign ones, is considered the key factor for economic growth and development.*

*Foreign direct investments are an alternative source for financing the national economy, with a tendency in recent years of a positive effect on the Romanian economy. This paperwork highlights the role of foreign direct investment in Romania's economical growth potential, with major impact on employment, on the economic modernization, technology transfer and on the living standards. At the same time the article analyzed and highlights the contains of the current trend of foreign direct investments, structure and dynamics after Romania joined the European Union and their geographical distribution on the main development regions.*

**Keywords:** foreign direct investments, role of foreign direct investments, development regions, economic growth

**JEL Classification:** R12, E22

## INTRODUCTION

In the context of globalization and innovation, the issue of foreign direct investment (FDI) is increasingly discussed in economic theories and their influence in the modernization of the economies of the recipient countries, representing "the critical element of economic growth, promoting intensive factors, quality and efficiency" (Munteanu and Tudor, 2009).

Many economists define foreign investment in various poses, some consider such investments as being "capital transfers from one country to another" (Ghibuțiu, 2009), the physiocrats stretch the need and the investment's role, but investment costs were related to their vision of the land and the work of land. Father of the economy, Adam Smith believed that "the capital accumulation by the force of things must be prior to the division of labor" so in order to work it is necessary to create jobs, to invest in advance. John Maynard Keynes considered that the volume of investments, "the result of collective behavior of independent entrepreneurs" is heavily affected by changing interest

rate and a lesser degree. The neoclassic felt that tax cuts and structural reforms to increase productivity and lower unit labor costs will increase investment interest (Anghel and Iancu, 2002).

The transition of former socialist countries of Central and Eastern Europe to a market economy expansion has occurred against the background of foreign direct investment. For many years they have been considered a unique solution for bridging the enormous competitiveness of new entrants countries in the EU and those developed ones. Romania is also in this situation, and as a result in recent years has become an attractive target for a large number of foreign investors. Besides, the integration in the European Union on January 1st 2007, brought new investment opportunities.

### **THE ROLE OF FOREIGN DIRECT INVESTMENT**

An analysis of the impact and role of FDI has become mandatory to understand where Romanian economy is up to. International experience in the field of FDI, point to a few clear things in Romania and we do not see why these things would be different than in other countries. In some countries, though not all, FDI has played a major role in promoting development, but do not knows any other example of a successful country in which the main role of foreign investment to be returned. In addition, an important role was played by internal investment. The role played by foreign investment is necessary, but one adjuvant in promoting development. International practice shows that one can speak of a contribution of FDI in technology transfer, organization and management, and in employment.

FDI has an important role in the process of privatizing state sectors, as evidenced in Central and Eastern European countries, especially after the '89, in promoting the market economy and increasing competition in the markets.

FDI has an substantial support in economic growth by creating new production capacity through the creation of new consumers and taxpayers. They support in the same time the increasement of capital investments because foreign investors access to external sources of capital, with positive effects on the balance of payments, current account deficit funding.

Contributing to the restructuring of the Romanian economy, FDI has influenced, directly and indirectly, the employment's structure by contributing to the creation of new jobs, while in the same time having a training effect, stimulating domestic competition since authentic producers are interested enhance the effectiveness and quality outputs "or to deal with the presence of foreign investors due to competitive pressures or to acquire the provider of the foreign investor" (Ivan and Iacovoiu, 2008). Therefore, the positive effects induced FDI to support improving the life standard of the population.

Besides the positive effects, the negative effects can occur at both macro and sectorial levels. Some of the negative effects are inherent in the short term, their occurrence is related to the implementation of the investment (Ivan and Iacovoiu, 2008). One of them, emerged from the restructuring of privatized enterprises to streamline business may be the emergence of rapidly increasing unemployment and development gap between regions of our country.

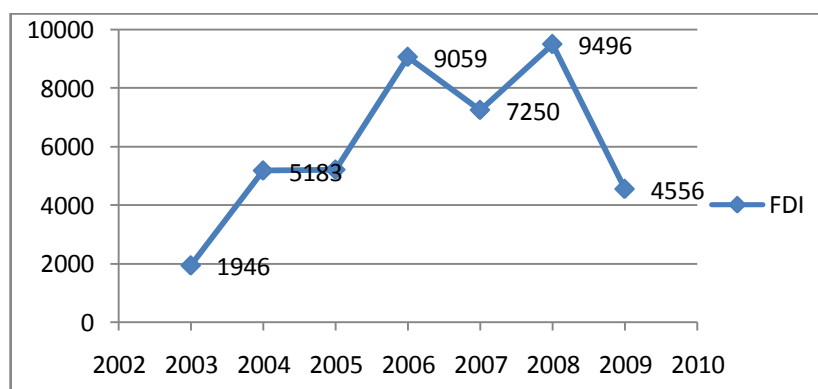
It should be noted that FDI recipe works with success only in countries that directs oriented sectors to foreign capital and high technology innovation. Unfortunately, it is not the case of Romania where FDI are mainly determined by increased imports and the current account deficit. This happened because in Romania, FDI has not been directed toward innovative sectors but to speculative real estate and retail sectors in seeking to obtain a maximum profit in a relatively short time, where unfortunately there were also the interests of the Romanian economy.

### **THE DYNAMICS OF FOREIGN DIRECT INVESTMENT IN ROMANIA AFTER JANUARY 1, 2007**

For a post-communist country, Romania has made significant progress in attracting foreign direct investment, taking into account the fact that foreign direct investment is impetuous required in order to straighten up the "significant gap with industrialized countries (Negritoiu, 1996).

Concerning the dynamics of FDI in Romania, since 2003 there has been an upward trend of them, primarily due to investment flows from Europe to Romania as a consequence of proximity of accession and the improvement of country's rating and economic performance.

**Figure 8 - Evolution of FDI attracted by Romania during 2003-2009 (Billions Euro)**



Source: National Bank of Romania, The balance of payments 2009, processed data accessed on 13.12.2010 at <http://www.bnro.ro/page.aspx?prid=4617#peloc>

An accelerated growth in recent years has placed Romania among attractive FDI destinations. Consequently, the investors interest in Romania has increased steadily in recent years. Cheap and

skilled workforce, low taxes, improving the business environment, the positive attitude of foreign partners and favorable geographical location are the main advantages of Romania for foreign investors. Thereby, as can be seen above, Romania has registered an upward trend in attracting foreign direct investment. In 2008, Romania attracted investments worth EUR 9496 billion placing her an enviable position on the statistics that analyzes foreign direct investment flows in South Eastern Europe.

As expected, the economic crisis has affected the amount of FDI attracted by Romania, in 2009 recorded a drop regard previous year, leading to the 4556 billion euros.

The number of FDI projects has almost halved in 2009 in Romania, while the volume of newly created jobs has decreased by 44%, according to a study released by Ernst & Young. Romania recorded in 2009 a 48% reduction of the number of FDI projects and a deceleration of 44% in the creation jobs, compared to 2008.

According to that study, in 2009 Romania has attracted 75 foreign direct investment projects, representing 2% of the total projects in Europe, and generated 6384 new jobs, or 5% of all Europe. Thereby, in 2009 Romania ranked seventh in the European rankings in creating jobs, respectively, ranked 11th by token of the market share in total FDI. The same study shows that in 2008 in Romania were created 11,403 new jobs through the 145 FDI projects.

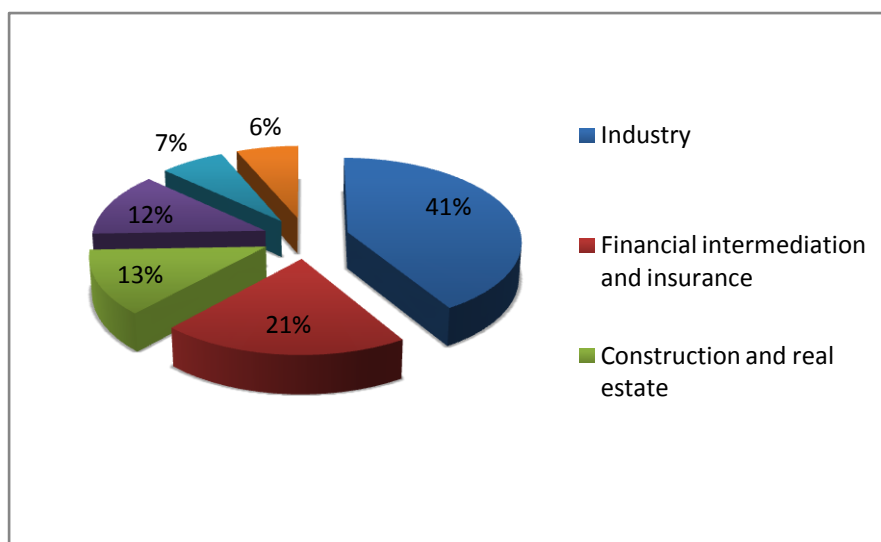
Despite the rather difficult period our country is passing through, Romania is still considered an attractive destination for industrial projects, in 2009 Romania drew about 7 percent of total European investment projects.

In 2009, FDI in Romania was also decrease by 48,4% from 2008, to 4556 billion Euros, according to statistics of the national bank. Investments financed the current account deficit at a rate of 96,9% last year. Intra-group loans accounted for 37,4% of FDI, amounting to 1834 billion Euros and equity, including reinvested profits, 62,6%, or 3065 billion Euros in 2009, according to statistics of National Bank of Romania.

From the point of orientation for foreign investors into industries (according to NACE Rev. 2), FDI was located mainly in industry (41% of total). On the next place is filled by the financial and insurance sector, followed by construction and real estate, commercial, and telecommunications. Within industry, manufacturing industry attracted the largest volume of investment (31,1%).



**Figure 2 Distribution of FDI by main economic activity**



Source: processed data accessed on 13.12.2010, <http://www.bnro.ro/page.aspx?prid=4617#peloc>

## **GEOGRAPHICAL DISTRIBUTION OF INVESTMENTS**

An important aspect to be considered is the geographical distribution of FDI on development regions.

From the territorial point of view is observed mainly targeting foreign direct investment to the region of Bucharest-Ilfov (63%), other important developing regions receiving FDI are central region (9%), South East (7%), region South (7%) and West (5%), at the opposite end stood the North-East with only 2% of total investments attracted. The graphical representation can easily point an unbalanced distribution of geographically foreign investment placement. Over half of these were concentrated of the Bucharest Region.

This phenomenon can be explained by the quality of infrastructure, labor supply and quality, the existence of some important opportunities and more stable markets, for better satisfying the requirements of an investor. The low FDI in the period analyzed were located in North-East, this is a poor area in terms of material resources, infrastructure, and the aging workforce (due to massive migration of labor young labor in other regions of the country or abroad). Another explanation is that in these regions, many investment projects were made from scratch, due to the lack or failure of specific economic infrastructure.

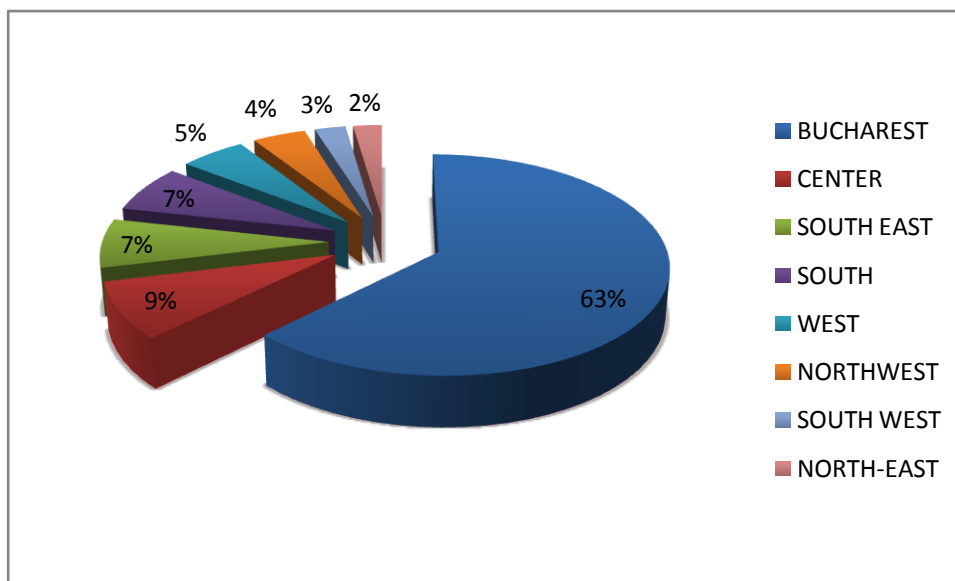
**Table 1 - Foreign direct investment in Romania on 31 December 2009**

	Value(Euro)
<b>TOTAL din care</b>	<b>49984</b>
Bucharest	31699

Center	3703
South	3576
West	3095
South-West	2938
South-East	2058
North-West	1940
North-East	975

Source: BNR Report for 2009 <http://www.bnro.ro/page.aspx?prid=4617#peloc>

**Figure 3 - Geographical distribution of FDI**



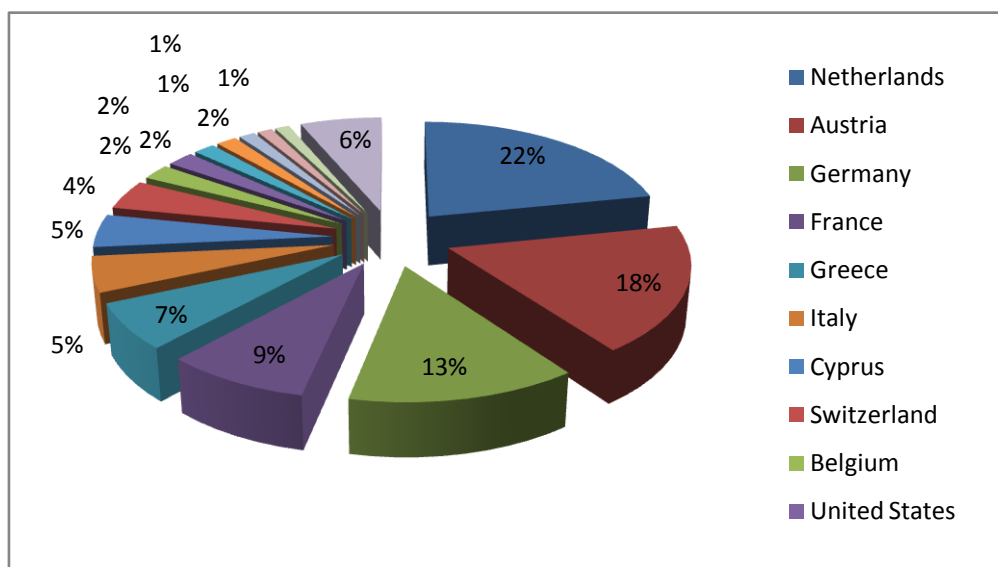
Source: processed data from Table 1

### **DISTRIBUTION OF FDI BY COUNTRY OF ORIGIN**

Taking into account the country of origin, we can say that the largest investments share in our country have Netherlands, Austria and Germany. According to a study made by the National Bank, the first five countries ranked by the share of FDI stock at 31 December 2009 is: Netherlands (21,8 up from 17,2% in 2008), Austria (18,1 vs 18,8% in 2008), Germany (13,4 vs 15,4%), France (8,5%) and Greece (6,6%). In

Romania, equity flows are differentiated in greenfield, mergers and acquisitions and business development. In 2009, according to studies made by the National Bank, the preponderance of shareholdings flow is represented by business developments with a value of 3065 billion euros

**Figure 4 - Distribution of FDI by country of origin**



Source: processed data accessed on 12.12.2010 at <http://www.bnro.ro/page.aspx?prid=4617#peloc>

## CONCLUSIONS

FDI inflows can play an important role in restructuring enterprises and institutions that have an effect on their training. They have an important role in changing international specialization, and may be associated with the development of intra-industry branch trade with EU countries (Munteanu and Tudor, 2009). In recent years there has been registered an upward trend of investment flows to Romania, which may mean that our country is on up track. Of course, the effects of recession have had an impact on foreign investments, they are decreasing by nearly half compared to the so-called boom that Romania is the record of 2007 and 2008.

However, foreign investment flows in addition to positive effects produced widening the disparities between Romania's development regions. Taking into account both the positive and negative, of foreign direct investment promotion requires appropriate government policies, aimed at the intelligent use of foreign capital flows as a tool for strategy development and implementation of targeted measures to a directional attract of FDI.

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