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THE EUROPEAN UNION’S BILATERAL APPROACH

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Abstract: *The EU is a world economic power and a major trading partner for most countries. All the time, this region has been interested and has acted towards a free and fair trade. The decrease and even the elimination of tariff and non-tariff barriers in the world trade are among the main objectives of the EU strategy for international trade. At the moment, the elusive outcome of the WTO Doha Round has led to the proliferation of bilateral trade agreements worldwide. Although the EU remains committed to further development of the multilateral trading system, however, the EU still has appealed also to the development of bilateral trade relations. The aim of this paper is to illustrate the current bilateral dimension of the common commercial policy of the EU. In conclusion, to describe this bilateral approach of the EU we are using one word, namely "diversity".*

Keywords: trade agreement; bilateralism; proliferation; EU‘s exports/imports; trade barriers
JEL Classification: F13; F19; F53; O52

Introduction

Continually, the EU has developed strategic relationship with a significant number of countries, regions of the world and international organisations. This major trade bloc has proved to be the adept free and fair trade by providing access to the European market for its trading partners. The EU’s participation in many multilateral and bilateral trade negotiations shows again his interest in decreasing or eliminating tariff and non-tariff barriers to global trade.

The EU committed to multilateralism and recognised the fundamental importance of the World Trade Organisation trading system. The WTO is an international institution designed to help global trade. It provides an institutional forum in which governments can negotiate trade agreements and solve trade disputes through a system of trade rules. Being one of the most important player in global trade, the EU supports the WTO decision-making process at the multilateral level, trade liberalisation, and sustainable development. For the European Union its active involvement in multilateral trade it means more products to sell at competitive prices, more growth, and more jobs.

This paper analyses the preferential dimension of the common commercial policy of the European Union. Today, multilateral trade agreements are favoured by the growing interest among WTO members to take advantage of bilateral/regional trade. In conclusion, we found that the EU‘s exporters were still facing difficulties in accessing markets in some countries, even if the EU had signed and negotiated FTAs (Free Trade Agreements). However, the number of specific restrictions of regions with which the Union is a partner of preferential trade agreements in force, that are reported

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to the European Commission, is much lower than disputes emerged between EU companies and countries with which the EU is currently ongoing negotiations of Free Trade Agreements. In spite of bilateral interest, the EU remains the most important actor in global international trade, supporting the WTO decision-making process at the multilateral level.

1. Literature review

Trade is one of the first areas of the European Union where member states have delegated more supranational sovereignty. Supranational powers became joint powers delegated to the European Commission, resulting in the expansion of international negotiations issues that dominate the agenda of "deep trade" of the EU. As the first EU‘s foreign policy area and one in which the proverbial "single voice" (Meunier, 2000) resulted largely international trade, FTAs blended with other foreign policy objectives. The EU is a truly "commercial power conflict" (Meunier and Nikolaidis, 2006) because it combined these objectives with changing preferences among Member States, the interests of economic sectors, and the aggregation of interests at national and EU level. And all this before defending its position in the international arena. The Union always prioritized their own interests, developing economic and trade relations with the rest of the world to create benefits for European citizens and companies/organisations.

Preferential trade agreements, particularly free trade agreements (FTAs) have proliferated in recent years. World Trade Organization allows countries to be part of such agreements in certain circumstances, but the criteria are very elastic and examination by the WTO on their compliance with WTO rules was not rigorous. The main dispute is whether they serve as a block or a stumbling block for multilateral trade liberalisation. These agreements are intended to benefit trade than previous FTAs. All agreements appear to be negotiated flexibly to suit both trading partners in every case. There are also traded in a number of different types of arrangements. The most typical is an Association Agreement (AA), which creates a framework for cooperation on a range of political, security, economic, trade, and human rights. It is clear that preferential trade agreements have increased and have become the focus of world trade diplomacy. Countries are looking to improve access to foreign markets for their exporters and investors.

European Union has always translated its identity value based on normative action, as a promoter of human rights and sustainability in the international system. As a developed and humanitarian actor, the Union distanced itself from imperial heritage of the Member States and developed a distinctive approach (Wolf, 2008, p. 211). Currently, a broad consensus emerged among its member states, the EU now plays a distinct role in international politics, avoiding traditional power politics and acting as a "force for good" in the world. This discursive move to implement foreign and security policy of the EU with ideological and political legitimacy was largely welcomed the academic world where concepts like "civil" power or "normative" power have been applied widely range on the international role of the EU in developing (Hyde-Price, 2008, p. 29).

To face the present economic crisis, in parallel with its membership of the WTO, the EU has developed a network of bilateral trade agreements with countries and regions around the world. These agreements were seen early on as an addition to its actions in the WTO to remove barriers to international trade and to allow it and its trading partners to achieve mutual benefit faster. There are clear that the WTO rules laying down the conditions for bilateral trade agreements in order to prevent their use to discriminate against other EU‘s trading partners and all agreements comply with those rules.

Offering an overview of the evolution in time of EU preferential trade agreements by the end of the Cold War, policy objectives have evolved to what might be characterized as a "soft" power (Nye, 1990) and even "normative power" (Manners, 2002) to more "realistic" by trying to protect its business competitiveness and position in the international economic order. Despite these changes, through a combination of international context and preferences of ideas, there is a set of basic continuity in terms of major economic interests. They need to be made through trade policy, which presents a picture of the EU as a major player in the global economy. This portrait gives new literature shades on EU trade policy.

From a historical perspective, the European preferential trade agreements differ among partners regarding the provisions and commitments. The emphasis of EU bilateral trade policy leads to a policy determined by the specific objectives of reciprocity. This is a significant step that goes far beyond the EU approach taken in the WTO Doha Round negotiations. At the multilateral level has been established by diffuse reciprocity clause "less than full reciprocity", compared to full coverage through bilateral free trade agreements. A specific explanation of this change of reciprocity is certainly increased competition from developing countries where the share of global trade is growing faster than the EU share in relative terms (Van den Hoven, 2013, p. 71). However, the large EU market encourages smaller trading partners to negotiate free trade agreements. Therefore, it can be concluded that bilateral EU trade strategy strengthens its pursuit of reciprocity.

According to Chauffour (2012), in the past 10 years, the world has experienced a renewed dynamism in the negotiation and conclusion of preferential trade agreements. This new wave of ″21st century regionalism″, as it was called by Richard Baldwin, is characterized by:

- the increasing of trans-regional initiatives and agreements covering the wider network of participants and greater involvement of developing countries at all levels;
- a strong participation of Asian countries in bilateral and regional agreements; and, of course,
- the increasing of deep integration (Chauffour, 2012).

International trade today is radically different and more complex than yesterday. In a world where traditional barriers to trade have been reduced and where the historical gains of tariff preferences were eroded, the focus has turned to non-tariff barriers, trade facilitation, services, investment, and other complementary domestic policies (e.g., competition and public procurement policies). To be sure, the growing number of preferential trade agreements and distortion of pricing structures, such as the practice of tariff peaks in agriculture and textiles sector, looking for an international trading system more transparent, non-discriminatory, and predictable remained as important as frequently. However, policy makers face new competing priorities. Trade agreements also provide a place where governments can credibly commit to policy reform by the external anchoring, the improved governance, and the possibility of the ability to import best practices and regulatory reform from others.

2. The Current Preferential Trade of the EU

The European Union is considered to be a major player in world trade. EU multilateralism has its foundation in the very fact that the regional bloc is the most important global partner. Here we argue that opening the EU trade regime assigns its highest quality player on the global trade scene. The EU has also acquired a strong position acting together as a single voice on the international trade, rather than 28 separate business strategies. Thus, Europe has become deeply integrated into global markets. The EU is an attractive market which outsiders can begin shipping business since the 500 million of European consumers looking for high quality products, and the EU is the largest single market in the world, with transparent rules and regulations. EU offers a safe legal framework on investment, which is among the most open in the world.

Although economic growth for the region has proved to be slow, the EU remains the largest economy in the world with a GDP per capita of 25,000 of euros. Union is the largest trading bloc and the largest retailer of services and goods produced in the world, occupying also the first position among the international investment. This region is the main trading partner for 80 countries, but the USA is the main trading partner for around 20 countries. Every day, Europe exported goods worth hundreds of millions of euros and imports hundreds of millions of euros, being the most comprehensive exporter of produced goods and services in the world.

The world economy is changing at an unprecedented rate with sustained growth of emerging markets. At the present time, the economy of these countries has come to exceed that of the old industrial economy. Global financial and economic crisis has hastened the movement of economic power from the developed countries to emerging economies. In this new situation, it is clear that Europe is experiencing the emergence of new challenges but also new opportunities related to the reorganisation of global production.

Elusive outcome of the Doha Round in the WTO increased the importance of preferential trade agreements worldwide. They have become one of the main areas of EU trade policy. In addition, analysis of European bilateral trade agreements presents an ideal way to learn about and to observe changes in EU trade reasoning. They remain one of the most comprehensive EU foreign policy instruments, and they give requirements that include a "deep trade" and political cooperation, democracy and governance terms. Thus, despite the fact that WTO members are trying to conclude the Doha Round, currently we witnessing a proliferation of preferential trade agreements. It seems that trading partners choose to address their concerns in the context of modern preferential rather under the World Trade Organization. It is obviously a definite concern to the EU on preferential trade agreements, explained by their number and increasing their scope wider. At the multilateral level, they are discussing only the role of the EU in the WTO trade action and not the actions based on WTO rules.

Today, the EU trade policy is driven by bilateral negotiations that emphasize the reciprocal nature of trade negotiations and policy making for the business community. This approach has important repercussions for the entire EU policy. Bilateralism and reciprocity are dominant not only in negotiating free trade, but also in other policy areas related to preferences for development, procurement and anti-dumping policy and policy materials. Thus, the action at niche (characterized by common features) and the application specific niche strategies, the EU appears to estimate the benefits package more "large", more concrete, and more coherent than multilaterally.

According to European Commission, in the next 10-15 years, 90% of global demand will be generated outside Europe. A key priority for the EU is to focus on the potential for growth by opening new market opportunities for European companies abroad. One way to ensure this is through negotiated agreements with key partners. Now rates are relatively low in global trade, trade barriers are behind the customs border. Therefore, the EU aims to conclude deep and comprehensive free trade agreements, in particular by removing tariffs and also by opening market of services, investment, public procurement, and including regulatory issues. If the EU were to complete all its free trade talks tomorrow it could add 2.2% to EU GDP, or 275 billion of euros. This is equivalent to adding a country as big as Austria and Denmark to the EU economy. In terms of employment, such agreements could generate 2.2 million new jobs and an additional 1% to the total EU workforce (EC, 2014).

Preferential trade arrangements covering trade between the EU and 180 countries and territories. The value of goods imported into the EU under these agreements amounted to more than 200 billion of euros, representing around 15% of EU imports. Trade brings economic benefits for both the EU and partner countries and promote sustainable development and poverty eradication in developing countries. Preferential trade agreements are an essential tool of EU trade policy, but need to be managed carefully to protect the interests of the European Union.

Preferential trade arrangements allow trading partners to grant preferential conditions when trading with each of them. Reciprocal arrangements reduce tariff barriers, with the goal of trade, economic growth, employment, and consumer benefits for both parties. The EU grants preferences to developing countries through tariff free access to the EU market, thus helping to eradicate poverty and promote sustainable development.

According to Raymond (2011), Europe’s preferential trade agreements can be grouped into four categories according to their primary reasons. First, there are close geographical neighbours agreements that the EU is ready to offer easy losing membership or relationship. A second category of agreements is primarily intended to promote stability around the borders of the EU. A third category of preferential trade agreements has a historical emphasis and provides development and includes agreements with 71 countries, especially small and poor developing African, Caribbean and Pacific (ACP). The fourth category includes countries and regions more remote, where the main objective of the EU is to neutralize potential discrimination against exports and investment arising from FTAs between third countries or to provide the EU commercial benefits through preferential access to foreign markets (Raymond, 2011, pp. 1-3).

Theoretically, preferential trade agreements, or "free trade agreements" are agreements whereby the parties have mutual compromise of concessions (the decrease/elimination of import duties, quotas, etc.). Under these agreements, export products originating in a country benefit from additional facilities partner country market access. International trade is an important and essential part of the EU’s external activities. Value and number/frequency of such exchanges of EU with its trading partners have evolved Union dependent relationship with the world, and the crisis triggered both worldwide and in the EU.

Economic and financial crisis in 2008 weakened international trade worldwide. The five countries/areas recorded low levels of exports by trading partners in 2009 compared to 2008 were: EU (27) - 17%; USA - 15%; China (except Hong Kong) - 11%; Japan - 22%; Russia - 32%. Since 2009, exports outside of the European Union are steadily rising. They have recovered from negative performance in 2008, so in 2010, the EU exports to the rest of the world has seen higher levels as against 2008.

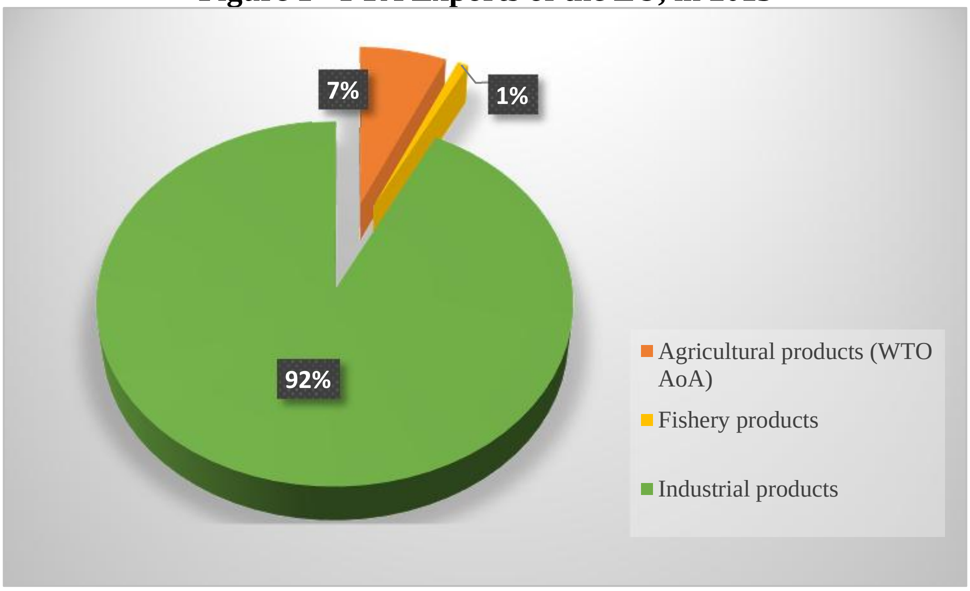
Economic and financial crisis of 2008 had a negative impact on world trade over a long period. Despite this, in 2012, several sectors of the EU have shown stability and even growth. The EU industrial base remained strong, registering a trade surplus of production of nearly 300 billion of euros, a figure that has increased fivefold since 2000. Surplus in services has increased more than 20 times in line for ten years, more than 100 billion of euros recorded in 2012. EU agricultural trade balance went from a deficit to a surplus in 2010. Overall the EU trade balance for goods and services was slightly negative (74 billion of euros) due to import of energy related products. However, the size of this deficit was small compared to total trade. Currently, the EU reserves nearly 28% of overall revenue generated by the production of manufactured goods to the United States by 18%, and to China a little less than 16%. EU share of this income has remained fairly stable since 2000, while the share of other industrialised countries has decreased significantly (WTO, 2013, p. 4).

We support the idea that the single market was vital in the creation of extra-EU competitive businesses and was a cornerstone of the EU's ability to compete in a globalised world. It has helped the development of rules and standards of quality that helps create global rules. EU enlargement has facilitated the emergence of effective European value chains. European firms exporting not only because of the value that is created in the EU Member State in which they are recorded exports, but also the contributions across the single market. Distribution jobs created by exports reflects this. For every two jobs created in an EU Member State, where exports are counted in statistical terms, a job is created elsewhere in the European Union.

An important aspect to be taken into account by its trading partners provides political capacity of the EU to conclude and implement trade agreements. There may be a perception that the EU is facing some difficulties in this area in the crisis. Despite unfavourable economic situation, Europe has proved to be able to go forward with liberalisation bilaterally, moving faster than other countries such as USA. Taken together, we believe that these free trade agreements should, as part of future trade policy, to contribute to economic growth. The EU's common commercial policy must give particular attention to the USA, China, Russia, Japan, India, and Brazil.

The EU has successfully concluded a number of important trade agreements with trading partners. At the present time, this region is a part of certain trade agreements and other agreements with a trade component both in the WTO context and bilaterally with certain countries and regions. As example, the EU’s bilateral/regional agreements in force targets countries from Europe (such as, Serbia, Norway, Switzerland, Albania, etc.), Mediterranean region (such as, Syria, Israel, Algeria, Egypt, Morocco, etc.), and other countries (such as, Mexico, South Africa, Korea, Central America, etc.). Also the European Union has concluded customs unions with three countries: Andorra, San Marino, and Turkey, and it is in the process of negotiating agreements with many more.The European Union also strengthens its ties to its neighbourhood, where they expect mutual economic gains from deep integration and regulatory convergence. Negotiations deep and comprehensive FTAs are concluded with Georgia, Moldova and Armenia (but are not yet in force), and soon to be launched with Egypt, Jordan, Morocco, and Tunisia. European neighbourhood policy based on strong synergistic relationship between trade policy and foreign policy, contributing to a zone of peace and prosperity.

Figure 1 - FTA Exports of the EU, in 2013



Source: Own processing after the European Commission Statistics

Trade between the European Union and the countries mentioned above comprise a broad category of products. To take note of their products for which has chosen the decrease or even the elimination of tariff and non-tariff barriers to external trade, we have analysed the level of imports and exports between the EU and these countries for 2013.Thus, from the Figure 1 above can be deduced with certainty that trade between the EU and partner countries at preferential trade agreements in force and in ongoing negotiations in 2013 were dominated by industrial products, representing 92% of total EU trade.

Both the EU imports and export share higher than 90% for industrial products. With regard to imports, the country with the highest value recorded is USA by 185,393 million of euros, followed by Switzerland by 89,911 million of euros, and Norway by 84,819 million of euros. And the states that had the lowest values are the Palestinian Authority (3 million of euros), and Syria (88 million of euros). The exports were dominated by USA by 272,354 million of euros, and Switzerland by 162,137 million of euros. And the lowest values were recorded, as in the case of EU imports, by Palestinian Authority (101 million of euros), and Syria (390 million of euros).If we refer to the Standard International Trade Classification (SITC), in 2013, the EU preferential trade with countries and regions mentioned above were dominated by machinery and transport equipment section.

This need of the EU to negotiate and conclude trade agreements bilaterally is essential in the current economic conditions. These negotiations have significant repercussions for the entire policy. Although it remains an important member of the World Trade Organization, even though the WTO cannot provide stable and economic analysis and Commercial Union. WTO rules are questioned and replaced by others that are developed at the sector and specific interests of the Union and its trading partners.

Over the years, multilateral review has been severely diluted. According to Mavroidis, currently multilateralism is an exercise of transparency. For those who are wishing to challenge the consistency of a preferential agreement, WTO can do this by placing a complaint before a specialized body of the WTO. For good reasons, there is rare litigation. Therefore, we actually live in a world where bilateral trade agreements are not controlled (Mavroidis, 2013, p. 23). At the same time, there are a number of trade disputes with partner countries that are reported to the European Commission.

The European Commission is responsible for assessing economic, social, and environmental aspects of bilateral trade agreements and oversee their implementation by Member States and partner countries. Our results which were reached after analysis of these disputes seems to highlight a link between free trade decisions and commercial disputes. Countries with which the EU is part of ongoing bilateral trade negotiations practice many more trade restrictions than countries with free trade agreements in force. Sanitary and Phytosanitary measures are found in most cases, especially in the Agriculture and Fisheries sector. As reported international trade, the EU preferential trade agreements in force and those for which the EU is a part of ongoing negotiations are the hardest hit on the two sectors, Agriculture and Fisheries and Horizontal sectors. The difference is that European exporters are restricted by countries with agreements in force in Agriculture and Fisheries sector, about 50% of the barrier. Conversely, countries with which the EU is part of ongoing bilateral trade negotiations restrict EU exports in both sectors equally, about 60% (30% each) of all barriers.

What has changed more over the years is the content of these FTAs: currently experiencing problems which fall under the mandate of the WTO. The picture emerging is not very relevant for WTO and preferential agreements encouraging. Due to reorientation of the current mandate absent, substantive content of FTAs is the latest expression of the priorities of governments, and therefore their object should be taken seriously by the multilateral institution. In short, today's reality of preferential trade agreements requires the ability to adapt to modern concerns the multilateral trading system and the inability to cope with current problems. Today, bilateral trade agreements are perceived, especially by the EU and its trading partners, the only way to deliver trade liberalisation. For this reason it is essential to understand the main reasons behind the negotiation and conclusion of such agreements.

Applying trade sector strategy requires greater analytical capacity from the European Commission. Sectors show a high degree of differentiation of every country and the issues included. To manage the large number of bilateral trade provisions, each case must be analysed and monitored directly and in detail. If the same area from two different regions is perceived as one and as the same then there is the risk of not handle with the current international trade and, ultimately, may be the collapse of bilateral trade.

Conclusion

The EU is a world economic power and a major trading partner for most countries. Always, this region has expressed interest and has actioned towards a free and fair trade. Reducing and even eliminating tariff and non-tariff barriers to world trade are among the main objectives of the EU strategy for international trade. Nowadays, the WTO Doha Round has led to the proliferation of bilateral trade agreements globally. The European Union has always been fully committed to the regularisation of a strong multilateral trading system, which formed the basis of the EU's common commercial policy. For this trading bloc is of highest importance that the WTO is an international organisation that reflects and respects the needs and concerns of developing countries. Although, the EU remains committed to further development of the multilateral trading system, however, he appeals also to the development of bilateral trade relations. By this, the EU recognizes that will contribute positively to complement the multilateral system in a situation where no issue of market access opportunities of its trading partners.

In conclusion, the importance of bilateral trade agreements increased in recent years in the world. With their proliferation it can be notice a change in EU trade and economic reasonableness. Union continues to operate globally, but in different ways. Trade with its trading partners no longer requires a "total and unique" strategy, but more specific sectorial strategies that are tailored to each sector. Indeed, this attitude shows more transparency and the ability to identify more easily and faster source of problems specific the international trade. The trade agreements negotiated and concluded bilaterally benefits the international trade development and improvement of European Union countries and regions with different development levels and even opposite. Trade between the EU and partner countries at preferential trade agreements in force or under negotiation, in 2013, was dominated by industrial products, representing a significant percentage of total EU trade (covering almost the entire activity of the EU free trade). The current trend of the Union is to develop and to deep trade relations with its trading partners more about bilateral highlights within the World Trade Organization.

We believe that this statement does not apply to the economic crisis worldwide. Possibility of recovery is different both from country to country and from company to company. States are using specific tools for every level of economic development. By applying a unique trade agenda, all countries can have serious consequences, diminishing the possibility of recovering from the economic and financial damage caused by the crisis. The EU strategy to focus on the sector is more realistic and necessary to the current world economic situation.

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LEGISLATIVE MOBILIZATION IN CONVERGENT DIRECTIONS: *ANTI*-CRISIS AND *PRO*-SUSTAINABLE DEVELOPMENT

Ionel BOSTAN[*]

Abstract: *In recent years, the legal steps (regulatory) taken at EU level as well as in each Member State, aimed to determine an ascent of sustainable growth, supported by a substantial degree of structural reforms. Obviously, Romania joined on the line, accounting as a responsibility of the state authorities to implement the European standards of the aforementioned nature, and also to develop and implement various (national) laws in an attempt to achieve faster the macro-stabilization and to strengthen the economic and business environment. In other words, lately, a certain enhancement of the intervention of the executive authority/government by legal means in the economic and business environment occurred, a situation determined, as we will show, by the increasing financial difficulties, to which, as we observe, were associated certain circumstances regarding the environment/sustainable development.*

Keywords: laws/regulation; financial crisis; institutional mechanisms; macro-economic; sustainable growth; EU; IMF

JEL Classification: K23

1. Introductory remarks

The last decade has brought to the European Union (EU) important macroeconomic imbalances, which emphasized the negative effects of the financial crisis which started in 2008 (EP, 2014) and was imported from the US, where it started with the "mortgage bubble" (Capilnean, 2013). Those imbalances, manifested especially in the Euro area, determined by the accumulation of massive public deficits and debt, to which were added the level differences of competitiveness, led to an almost unmanageable situation for some countries, created by the simultaneous occurrence of the financial crisis and the debt crisis. The deficiencies which occurred showed that the governance in the Euro area and the economic policy coordination were as weak as possible, a situation that required "thoroughness and broadening of the economic surveillance to guide the fiscal policy over the entire cycle and also on long-term period, while correcting the differences at the level of the growth, inflation and competitiveness" (EC, 2008). The functioning of Economic and Monetary Union (EMU) especially was under pressure because of the failure, in the past, of the regulation and principles which underlie it. On the other hand, the existing surveillance procedures have not proved themselves to be comprehensive enough (EC, 2010). However, it can be stated that getting through the critical period by the Member States (MS) was only possible because of their membership in the EU - with its domestic market for 500 million people and a common currency in 16 MS -by operating the existing coordination tools and methods. In fact, only these instruments, even imperfect, allowed the EU to

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pool their efforts to recover and to survive a major crisis that no MS would have been able to handle on its own. Therefore, starting with May 2010, urgent measures to meet the immediate needs of the crisis were initiated, measures which culminated in an extraordinary Ecofin Council on the 9th of May (ECOFIN, 2010); based on a Commission proposal, it was decided the establishment of a European stabilization mechanism and agreed upon a strong commitment in favor of an accelerated fiscal consolidation. We also mention that at this point it was invoked the necessity for a stricter adherence to the Stability and Growth Pact and the extension of the surveillance to macroeconomic imbalances.

2. Specific bodies and new instruments aimed to fight the crisis

2.1. European financial mechanisms "anti-crisis"

Referring briefly to the European financial mechanisms "anti-crisis", we reveal that, in order to support the sustainability in the financial sector, the European organizations have tried repeatedly to encourage the economic growth (Bostan, 2011). A brief analysis of the European Economic Recovery Plan (2008) reveals several ways in which the MSand the EU can offer support to the real economy. The measures taken have already changed the way in which the economic and monetary policy is directed, creating new bodies and tools. They affect extensively the manner in which public funds are used within the EU. First, we need to mention that since early 2012 the European System of Financial Supervision operates, and were also set up the European Banking Authority, the European Insurance and Occupational Pensions Authority and the European Securities and Markets Authority work. According to a particular document (European Court of Auditors, 2011) presented to the Committee on Budgetary Control of the European Parliament (EP) by the European Court of Auditors (ECA), the EU budget played an important role in this context, providing an extra 5 billion Euros to address the energy security issue and to bring high-speed Internet in rural communities and 11 billion Eurosfor payments (advances) engaged in the cohesion policy. Also, the European Investment Bank has increased its lending possibilities of SMEs with 15 billion Euros. For the MS outside the Euro zone, in order to grant access to financial assistance, the EU has applied an already existing instrument, namely the Community financial assistance mechanism for medium-term. To assist the MS in the Euro area, the EU created two temporary instruments, replaced later with a permanent European Stability Mechanism. The first, the European Financial Stabilization Mechanism was implemented in 2010 in order to ensure the financial assistance of the Union by granting guarantees from the EU budget. The second instrument, the European Financial Stability Fund was designed to assist MS within the Euro area (with a volume of funds up to 440 billion Euros). In 2012 the Euro area countries created the European Stability Mechanism (ESM-permanent), with a lending capacity of 500 billion Euros. Along with the contributions of the International Monetary Fund (IMF), this mechanism has at its disposal nearly 750 billion Euros, representing an integrant of the EU’s global strategy aimed at ensuring the financial stability (Capilnean, 2013). In terms of tax regime, in late 2010 the Commission presented a series of proposals regarding an enhanced surveillance of the fiscal policies, as well as of the macroeconomic policies and structural reforms of the MS. The European Council endorsed this initiative and agreed on the enactment of the Euro Plus Pact, which aims towards a more qualitative coordination of the economic policies. A new procedure to coordinate the MS’ policies *ex ante* was approved, entitled the “European Semester”. This is actually a common tool used to coordinate the economic and fiscal policies of the EU MS, which monitors the budgetary discipline, the macroeconomic stability and the growth-promoting policies. The term “semester” derives from the 6 months period during which the fiscal and structural policies of the MS are analyzed in order to identify current or imminent imbalances, which would violate the rules established by the Stability and Growth Pact. Thus, together with the preparation of the budgetary decisions in each Member State, certain coordination may also take place aimed to secure the stability and growth of the entire European economy. According to the same ECA report, mentioned above, two aspects are of great importance. They refer to the European System of Central Banks and to the new set of norms aiming to control the national fiscal policies. Already, in some EU Member States and in certain third-party countries, these policy fields are subject to extended public control. Concerning the central banks, the reasons that require further reflection in this phase are the amplitude of the assumed financial risks which might be borne ultimately by the European taxpayers and the new macro-prudential responsibilities currently granted to the European Central Bank. As regards the fiscal policy, it is currently present the need for a more effective and virtually independent monitoring of the policies implemented in the MS. After approx. three years (2013) a turning point of the crisis was reached, but the incipient recovery is still fragile as the global economic context is still showing various uncertainties (EC, 2013). A dramatic increase in the next period is not forthcoming, given the risks arising from the distrust in the resistance of the banking sector or the high rates of the sovereign debt (EC, 2013b). However, the signs of the economic recovery should be seen as an encouragement to further efforts to improve the competitiveness and to ensure the sustainable recovery, aiming to support the domestic demand, which should become the main engine of the growth.

2.2. Courses of action established at EU level in order to stabilize the economy

During the last period, the global economy has benefited from a political response coordinated to the existing difficult context, meaning that a number of fiscal and monetary measures taken by the governments helped stabilize the global economy (MPF, 2010). For the future, intending to preserve its efforts in the explained sense, the EU has proposed to act on the following directions (EC, 2013b):

õ *Further differentiated budgetary consolidation*, taking into consideration a set of measures concerning the expenditure and revenue favorable to growth, with a greater emphasis on public expenditure and modernizing the administration. The new trend in taxation policy requires that they be designed to promote growth by shifting the tax burden from the work force to consumption-related tax bases, property and combating pollution (Bostan, 2008); it is increasingly acknowledged that the environmentally harmful subsidies should be drastically reduced.

õ *The resumption of lending the economy*, following the restructuring and adjustment of the banks. Under these circumstances it becomes important the adoption and immediate implementation of the banking union and the strengthening of the banks' ability to manage the risks; also, creating alternatives to bank financing, including venture capital options, the issue of bonds for SMEs etc.

õ *Promoting growth and competitiveness* through the full implementation of the third package of legislative measures on energy in 2014 and improving the efficiency in terms of costs of the support systems for renewable energy. Two other *priorities* refer to promoting resource efficiency by improving water and waste management, recycling and energy efficiency - and to improving the implementation of the Services Directive (EC, 2006), including the control of the restrictions affecting the access to the regulated professions.

õ *Combating unemployment and the social consequences of the crisis* by enhancing the active employment measures, conducting reforms to ensure the correspondence between the wages and the productivity and further modernizing he educational systems.

õ *The modernization of the public administration* by implementing at a larger scale the electronic governing (e-Government) services, including for the collection of taxes and for the points of single contact (PSCs) instituted by the Services Directive. In this respect, a simplified business environment and a reduced bureaucracy becomes very important; the target here is represented by both the decrease in the complexity of the procedure for setting up businesses as well as the reduction of the period for issuing the licenses/authorizations.

From the perspective of the judiciary systems it emerges the necessity for the improvement of their quality, independence and efficiency, also by ensuring solutions for the cases within a reasonable period of time; on the other hand, it is presumed that the modernization of the national insolvency law would considerably improve the conditions under which the companies operate.

2.3. Legislative steps taken by the European Parliament (EP) and the EU Council to achieve the economic growth and sustainable development objectives

The measures taken recently (2013) by the EP to counteract the crisis consisted of (Capilnean, 2013):

• *The two-pack on economic governance* which aims to consolidate the budgetary surveillance in the Euro area and may offer legal protection to the states of the Euro area facing financial difficulties. In 2010, the EU adopted a legislative package designed to supervise financially the private sector and in September 2011, the members of the European Parliament (MEPs) approved the so-called “six pack” regulations;

• The reform package of to *strengthen EU banks*. The changes limit bankers’ bonuses in order to reduce speculative risks, increase the capital reserves to help banks to better cope with crises and strengthen supervision;

• Measures to *combat tax fraud*. The EP requested by resolution the MS to join forces to halve, by 2020, the one trillion Euros fiscal gap. The EU members seek an agreement among the governments on measures to combat tax havens, to correct the gaps and to combat the aggressive tax planning;

• Consolidated rules *against the manipulation of the financial markets*. Since privileged information and market manipulation enriched a few bankers, weakening the stability of the financial system, the MEPs voted tougher rules against these abuses;

• Rules for *limiting the risk when purchasing real estate*. They allow those who buy a home to be better informed about the costs and risks of the mortgage and to be partially protected against market fluctuations and increases of the rates; also, they will be better protected if they found themselves in the impossibility of repaying the loan;

• The implementation of a *single banking supervision system*. Since September 2014, the EU banking supervisory system brings under the direct supervision of the European Central Bank about 150 of the largest banks in Europe. The MEPs strengthened the transparency and accountability of the system and asked the European Banking Authority to develop supervisory practices to be followed by the supervisors in the national banks.

In terms of financial resources available to the European Commission (EC), we show that the EU budget is focused on overcoming the crisis by investing in economic growth and creating jobs, a number of projects supporting the entrepreneurs who want to set up businesses (EC, 2013c).For the funding period 2014-2020, the EC aims to meet the objectives of the Europe 2020 Strategy on economic growth (EC, 2013d), also taking into account the key objectives of the EU Sustainable Development Strategy (CEU, 2006), urgently requiring the promotion of a more efficient economy in terms of resource use, more environmentally friendly (Bostan *et al*., 2008, 2009) and competitive (EC, 2010).The sustainable development actually means "meeting the needs of the present without compromising the ability of future generations to meet their needs" (CMMD, 1987). To do so, even before the EU-27 formula, the EC has settled clear objectives and actions related to: (a) climate change and clean energy, (b) sustainable transport, (c) sustainable consumption and production, (d) conservation and natural resource management, (e) public health, (f) social inclusion, demography and migration, and (g) poverty alleviation. Besides, the sustainable development has become a political objective of the European Union since 1997, through its inclusion in the Treaty of Maastricht; in2001, the European Council in Gothenburg adopted the EU Sustainable Development Strategy, which was later largely revised. Today it has become increasingly clear that a sustainable growth involves building a competitive, sustainable and efficient economy in terms of resource use (Bostan, 2014; Pohoata *et al*., 2014). The general strategic objective of the sustainable development concerns the continuous improvement of the quality of life for present and future generations through the creation of sustainable communities able to efficiently manage and use the resources and to capitalize the ecological and social innovation potential of the economy to ensure prosperity, environmental protection and social cohesion. To achieve the targeted aspirations it is necessary to improve the competitiveness among the EU trade partners, through increased productivity, and to maintain the advantage on the market for green technologies as a way to ensure an effective use of the resources in the whole economy, eliminating at the same time, the bottlenecks within the major network infrastructures, and thereby, boosting the industrial competitiveness (Bostan and Artene, 2012).Likewise, there are also necessary the control of the climate changes by reducing the massive carbon dioxide emissions and the fully exploitation of the potential of the new technologies such as capture and storage possibilities of carbon dioxide (Bostan and Roman, 2013).Achieving the objectives concerning energy ("clean and efficient energy"), for example, could cause the value of EU oil and gas imports to fall by 60 billion Euros by 2020, which is not only seen as a saving in financial terms, but it also represents a fundamental element of the EU energy security. In fact, the multiannual financial framework for 2014-2020, which defines the priorities for expenditure directed towards sustainable economic growth, employment and competitiveness, in line with the EU Economic Growth Strategy – "Europe 2020" (EC, 2013d) allows the EU to allocate approx. 960

billion Euros in commitment appropriations (1.00% of EU GNI) and 908.4 billion Euros for payment appropriations (0.95% of EU GNI) (EC, 2013c). The access and the actual use of the concerned financial resources are guided by a normative system, recently reviewed extensively. Thus, the new regulations adopted by the European Union in late 2013 that will govern the expenditure of the funds allocated from the EU budget during 2014-2020 are (Finantare.ro, 2014):

• Regulation (EU) No. 1303/2013 *laying down common provisions on the European Regional Development Fund*;

• Regulation (EU) No. 1300/2013 on the *Cohesion Fund*;

• Regulation (EU) No. 1301/2013on the *European Regional Development Fund* and on specific provisions concerning the investment (for economic growth and jobs);

• Regulation (EU) No. 1304/2013 on the *European Social Fund*;

• Regulation (EU) No. 1305/2013 on support for rural development by *the European Agricultural Fund for Rural Development;*

• Regulation (EU) No. 1306/2013 the financing, management and monitoring of the Common Agricultural Policy;

• Regulation (EU) No. 1302/2013 amending Regulation (EC) No. 1082/2006 on a *European grouping of territorial cooperation* (EGTC) as regards the clarification, simplification and improvement of the establishment and functioning of such groupings;

• Regulation (EU) No. 1309/2013on the *European Globalisation Adjustment Fund* (2014-2020).

But in our case, we want to point out that, as the situation evolved in the previous quarter, when it was stated explicitly that the "sustainable development is the dominant principle of the EU policies", but actually the "EU economic competitiveness issue against the globalization has come to dominate the political agenda" (EurActiv, 2008), perhaps things will not know spectacular improvements in this regard.

While no one can assert that the environment has been neglected, however, it is expected that the principle of the "competitiveness" to remain in the spotlight. This is particularly true since the issue of the financial crisis in the EU still has not been resolved.

3. The financial and economic crisis in Romania and the risks of environmental degradation, additional arguments of the successive amendments to incident regulations

The global economy encountered in 2008 the biggest economic crisis since the Great Recession of 1930, which affected both the developed countries as well as the emerging ones, demonstrating the degree of interdependence among the economies of the world. Since the last quarter of 2008 the crisis has also spread in Romania in the context of the unsustainable growth recorded by our country's economy (7.3% in 2008) that fuelled an excessive current account deficit of about 11.6% of GDP in 2008 (MFP, 2010).As well as in other countries, managing the economic boom has proved difficult, the fiscal policy fuelled the imbalances by spending the income related to the additional growth, which led to higher fiscal deficits. The financial crisis created a number of challenges for the Government, of which the most important were:

• A new approach to fiscal policy, requiring the choice for rational and intelligent spending, a deeper analysis of the costs of the measures taken and the redesign of the expenditure; the purpose: to obtain a maximum effect using limited resources;

• A coordinated global response of the authorities focused on a better recognition of all stakeholders;

• The necessity to improve and reform the public services, the need to do more using fewer resources, respectively a partnership between the government, the business environment, the labour market and the civil society.

The measures concerning the re-prioritization of the expenditure in the public sector, the decrease of the low-priority costs and directing the funds toward the important programs for the development of the national economy, the rationalization of the public organisms and agencies etc. are all actions included in the anti-crisis strategy. Obviously, these actions required amendments in the regulatory framework, emerging a multitude of legislative rules on budget containment (Government Ordinance 34/2009 on the 2009 budget rectification and regulation of financial and fiscal measures etc.). In this context falls in line the reform program of the public sector implemented by the Romanian authorities and agreed with the IMF, which aims to reduce expenditure and conduct reforms in the public sector, designed to pull Romania out of the crisis and lead to a stronger and flexible economy. Next, a large category of rules was enacted to restart/macro-stabilize the economy (i.e. regulation on stimulating the setting up and development of SMEs, state aid, guaranteeing the loans for micro-enterprises/SMEs, etc.). On the other hand, since the economic crisis affects primarily the disadvantaged groups, the intervention of the Executive – by issuing Government ordinances and decisions - was essential for the protection of these groups. So to minimize the effects of the financial crisis on disadvantaged groups, the Romanian government adopted a series of measures on: unemployment, family support allowances, guaranteed minimum income.

Conclusion

Fighting the effects of the crisis caused by the accumulation of massive public deficits and debt, to which were added the differences in level of competitiveness, involved the review of the entire institutional system (laws, mechanisms, etc.), existing both within the EU and each Member State. What we noticed is that the special mobilization that followed the onset of the economic crisis (2008) has strongly marked the "production of laws/rules" on both levels (European and national).They covered the directions also mentioned in the title of this paper, anti-crisis and pro-sustainable development, coherently, as we pointed out, and leading eventually to the creation of special mechanisms designed to improve the situation. However, the optimism is as tempered as possible, given the "legacy" of the crisis and the need to reduce the leverage in the public and private sectors. We can also mention here the fragmentation of the financial systems and credit markets, the restructuring and sector adjustment and the high rates of unemployment.

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CONSPIRATORIAL REASONING AND ECONOMICS

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Abstract: *The unintelligibility of the social and economic phenomena is due to isolation from the various backgrounds that has driven and maintained them. The conspiratorial reasoning insists over those backgrounds and focuses on identifying the intentionality in the primary cause. Throughout history, global economic relations have been ordered by private goals, which often subordinated to the desire for wealth or power; the market and the natural order had been oppressed by the state interventionism and by the will of some political powerful groups. In this context, we believe that the conspiratorial reasoning can be an instrument of the economic analysis, by pointing the specific political and economic interests that rule over the apparent hazard of interests. This paper aims to illustrate the peculiarities of the conspiratorial reasoning, as an alternative, beneficial reasoning, which can guide us to the answers we need in a world of paradoxes and coincidences.*

Keywords: Conspiracy theory; Conspiratorial reasoning; Economics
JEL Classification: B49; Z13

Introduction

Today, the complexity of the global socio-economic and political situations generates a genuine conspiracy rhetoric that seeks to offer a meaning every time reason fails. Reason fails through vitiation, omission or negligence. Neglecting the conditional link between the economic activity and the psychosocial and political fields takes place due to the isolation of the investigation, the excessive abstracting and the mathematical representation. We should not overlook the fact that economic issues are inextricably linked to the social, political, psychological or cultural issues; and be aware that the particular motivations or intentions cannot be inserted into mathematical models. The conspiratorial reasoning encourages a very complex thinking, underlying important aspects like: the key players, their interests and motivations; the power relations and their resonance on the national and global economic processes, etc.

The aim of the paper is to explain the difference between the conspiratorial speculations and the conspiratorial reasoning, which may constitute a tool in the analysis of the economic phenomena. We focus on the semantics and the epistemology of the conspiracy field; also we extracted several guidelines and opinions from the relevant literature on the conspiracy theory.

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1. Basic concepts

Conspiracy theory is a generic term for a set of theories aiming to indicate the plot as source for various events in human history. For a „conspiracy theorist" the major global events are often conducted by subversive forces. The presumption of immorality or the pejorative meaning of the term „conspiracy" are noticeable in all circumstances in which they are invoked, e.g.: the anti-senatorial conspiracy of Lucius Sergius Catilina (63 B.C), the Masonic conspiracy of the French Revolution (1789), the assassination of John F. Kennedy (1963), the terrorist attacks on the World Trade Center (2001), etc.

Conspiratorial thinking is the cognitive process that seeks to explain the events as conspiracy products; it can be a particular way of thinking or a general view on how the world functions. On a small scale, the scientific evaluation of conspiratorial thinking can be realized through applying questionnaires on representative subjects. Also an effective approach for accessing the conspiratorial thinking is reviewing the literature and the public discourse on certain topics that fall within the aria of conspiracies. In fact, the undeniable extent of the conspiratorial thinking phenomenon can be observed through the constant proliferation of the plot theme in literature, in printed press, in the intense activity of web sites and forums, but also in the efforts of some personalities in order to popularize video documentaries (e.g. Zeitgeist) and to support public conferences.

The global conspiracy culture emerges every time when people investigate the trigger factors of the revolutionary geopolitical processes. In the globalization era the poignancy of this culture relies on the Internet facilities: the propagation velocity, the accessibility of information and the difficulty to control and censorship people's ideas. Creating and disseminating conspiracy theories are mental and social activities, very difficult to suppress in a free society. Also, such theories have the tendency to reaffirm due to their strong core: the ancient belief that our world is not governed by chaos but by significant forces. The two opposing sides, good and evil are not just the result of imagination or popular creations; they are real forces, represented *de facto,* in real circumstances (e.g. totalitarian governments, racist movements, genocides, wars, manipulated crises, etc.) and they act above democracy. The Manichaean approach provides the persistence of this polarization till the end of history, when evil will be finally defeated (Barkun, 2001, p. 2).

Conspiracy theories are defying the canonical science and filling the gaps left by the exclusiveness of rationality. Despite their precariousness, they can stimulate a healthy reasoning, the **conspiratorial reasoning** („*Cui bono?"*) that relies on exploring the informal plan of human activity.

There is a major difference between conspiratorial thinking and conspiratorial reasoning; *conspiratorial thinking* is often perceived as paranoid thinking, while the *conspiratorial reasoning* can be adapted to the rules of a genuine scientific process, in order to obtain relevant answers on some recurrent socio-economic issues. The conspiratorial reasoning involves research starting from identifying the interests and motivations that underlie the economic act– since the nature of the market is influenced by the nature of the actors operating within it, mainly by the nature of those forces that regulate and control it.

For the first time in the economic literature, the idea of conspiracy belongs to the father of economy; in his „Wealth of Nations", **Adam Smith** is referring to the monopolistic associations: „People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices." (Smith, 2005, p. 111). The mentioned situation expanded when certain privileges on the market were facilitated by the government. Free competition can be suppressed by large corporations or by political pressure groups which appeal to the coercive force of the state in order to achieve their private goals- here, the conspiracy pattern can easily be recognized: a secret plan, a secret agreement, the lack of concern for the free market and the public good.

2. The dialectics of conspiracy theorizing

In his work „The Open Society and Its Enemies" (1962), Karl Popper considers ***the conspiracy theory of society*** a real opponent for the true purpose of the social sciences. Although he admits the idea of **conspiracy** as an authentic social phenomenon, the author is reticent about its degree of achievement, justifying that there is a large discrepancy between aspirations and achievements. Conspiracy theory can be a typical result of the secularization of religious superstition or the prerogative of the individuals who came to power, through which their failures are justified by the „bad intention" of some evil forces (Popper, 1993, p. 109).

Popper considers that conspiracy theory neglects the unintended social repercussions of the intentional human actions – precisely, these repercussions being the object of analysis in social sciences. Our opinion is that there still are a lot of intentional actions that lead to the expected results as key factors in explaining economic facts, with relevance to the scientific research. To ignore the motivation, the intentionality, the plan or the beneficiary behind some major events is causing the transformation of the consequences – from intentional to unintentional. At the same time, we consider that the scientific truth does not reject an exhaustive treatment of all the consequences of the human action.

For a long time, the conspiracy theories were disapproved and disputed in the scientific sector, due to their disobedience to the scientific research procedures. It was found that the emergence of these theories is the expression of some psychological anxieties or of the cognitive fundamentalism, which flagrantly violates the academic methodology. Due to the scientific dogmatism, conspiracy theories are not tested or verified, but *ex ante* contradicted and disqualified by criteria regarding the method, the reasoning or the psycho-sociological motivations. For example, a deficient **method**, particular to the conspiracy theory, is the **hypercritic**: the specialist focuses on the points which validate his theory or on those points which contradict the adverse explanations, excluding any counter-argument (Taguieff, 2005, p. 616).

The conspiratorial **reasoning** is compromised by the precarious efforts of associating characters, groups and events, efforts that can be imaginative, intuitive or prejudiced. The purpose of conspiracy research is to identify the particular interests and shadow beneficiaries; the reasoning error occurs when research starts from already biased assumptions concerning the responsible agent, thus the objectivity of the facts is exceeded.

However, the main reasoning error of the conspiracy theories is the aprioristic belief of the conspiracy existence, which involves the analysis of all the information and facts in the light of the alleged conspiracy. Still, the accusation of bias in conspiracy theories can be considered hypocritical while the scientific knowledge of mankind was influenced by the nature of the historical period, the political regimes and by the related mainstream trends; also, many paradigm shifts can be counted in human history.

We can observe many method or reasoning errors in the variety of conspiracy theories, but we cannot generalize certain situations, concluding that all the conspiracy theories are based on unscientific methods or arguments. Also, there are several myths about conspiracy theories, affecting the perception of their explanatory power:

I. **Conspiracy theories offer a generalized, simplistic view on socio-economical phenomena**, by invoking the domination of elite groups / secret societies over the masses. Of course, it is comforting to always identify a responsible (a „scapegoat”), and the obscure, secret, occult group is the perfect candidate for this role, due to the mystery that surrounds it. Defending conspiracy theories, Sanders and West (2003, p. 17) claim that these are complicating the understanding of the events, by drawing attention on a hidden and contradictory logic.

Also, the actions of conscious human beings cannot be the subject of the same methods as the physical or chemical processes, since they add complexity to the events by deviating from the rules and by the unpredictability of the irrational behavior. Also, the human nature is characterized by dualism: good and bad, negative and positive; therefore, the leaders, the governments and the non-governmental entities could lack social empathy. However, this is the issue to which conspiracy theories are trying to draw attention.

II. **Conspiracy theories and the principle of falsifiability.** Karl Popper's rule of scientific falsifiability is useful to disqualify the pseudoscientific theories. Conspiracy theories are considered as non-falsifiable because of their peculiar logic: (1) they issue hypotheses about events, objects or people that cannot be directly, spatially and temporally observed; (2) the prior presumption of conspiracy (a great number of controversies or real conspiracies can generate a pattern or a precedent). We believe that the principle of falsifiability is unable to annihilate all conspiracy theories, since the conspiratorial actions are usually secret; the notion of secrecy cannot be the subject of falsifiability.

III. **The social psychology's explanations on conspiracy theories** focus on a set of characteristics that share the reference to a feeling of human powerlessness; the acceptance of the conspiracy hypothesis confer people access to „hidden truths", the power to understand and to control facts, the opportunity to justify their own failures or to avoid responsibility, etc. Unlike conspiratorial thinking, conspiratorial reasoning does not fall under the incidence of psychopathology and distinguishes from the paranoid thinking which is caused by anxiety or prejudice; conspiratorial reasoning solely targets to explain **authentic facts** by verifying the motivation and the related activity of the potential authors.

In the same time, it is necessary to distinguish between the two manners of indicating the conspiratorial act: logical (*post factum*) and ideological (*ante factum* or *a priori*). There are conspiracy theorists analyzing objectively the facts and conspiracy theorists that set their findings according to an ideology, a certain political orientation or in the light of their own anxieties/phobias concerning real or virtual enemies. For the latter, the knowledge is biased.

IV. **Conspiracy theories are paranoid manifestations of anxiety**. According to the American historian **Richard Hofstadter**, those individuals who adhere to the paranoid style of thinking believe that history was manufactured or significantly altered by a strong group of vicious people who exercise their power in order to control the population, the political environment and the local or global events.

The author shows that the origin, the structure and the reiteration of the conspiracy theories are related to the fear of catastrophes, to the conflicts between religious cults, to the competition of political parties, etc. Over the time, the rhetoric conspiracy keeps its pattern: it is imperative, urgent, directed against an „amoral Superman" or represents a renegade version of the enemy power. The paranoid style is proliferated from generation to generation, and its importance is not due to the vehemence of its fanatics, but to its use by normal people. Thus, the conspiracy is a way to see the world and to make sense of events by a judgment which does not necessarily fit into the patterns of normality, but occurs to normal people (Hofstadter, 2008).

Since three quarters of the U.S. population and more than a half of the French one, expresses the belief in conspiracy theories, according to Hofstadter's reasoning, we can conclude that these individuals display a specific pathological symptom of a pseudo-conservative personality, as a result of their private ambitions and anxieties. In addition to that we mention some effects arising from Hofstadter's thesis on the paranoid valence of conspiracy theories:

- All the conspiracy theory adherents find themselves in the common position of making choices; according to the paranoid profile hypothesis, all the political, social or financial choices are performed under some false conspiracy beliefs. Thus, the foundations of people's choices will be as precarious as their conspiratorial view;

- The easy manner in which the paranoid style is assimilated all over the world, by inheritance, contagion or by exacerbation of particular anxieties, can tell us something about the high possibility to influence the population regarding their answer in concern with the norms, values and messages, propagated by opinion leaders or mainstream trends. The assimilation of values and social models is made in the same manner in which the culture of conspiracy is assimilated. If we accept the hypothesis that a big part of the world's population is paranoid believing in conspiracy theories, then we must equally admit that it is vulnerable to manipulation;

- Even if conspiracy theories are the result of paranoid thinking, they certainly indicate a problem. Therefore, we must ask ourselves what was the prime cause of that problem. Firstly, the negative perception regarding the authority's morality is highly influencing the belief in conspiracies. Secondly, uncertainty is the background of speculations and conspiracy thinking, firmly maintained by a combination of factors as: the lack of transparency in the public and private decision-making system; the lack of public information in order to provide the citizen a coherent picture of reality; the many contradictions in public speeches, doctrines and political groups; the high-level corruption and public lying; the lack of the security sentiment, arising from unpredictable tragic events, etc.

V. Another manner to disqualify conspiracy theories is by antithetically presenting them to the **institutional analysis**. The institutional theory formulates its explanations focusing on the roles, incentives and dynamics of the institutions, replacing personal factors with the institutional ones

(Albert, 1995). Institutional analysis relies on the systematic study of collective behavior, so its ability to explain the major political, social and economic events contrasts with the conspiratorial explanations that invoke the activity of small, secret, groups or coalitions (Fenster, 1999, p. 57).

Knowing the usual institutional operations can generate answers concerning certain individual behaviors or motivations; the individual agents and their interests can be analyzed in relation to the nature and specificity of the institution. However, conspiracy theories identify **informal manifestations of power** or extra-institutional groups that function outside the institutional theory. We believe that the institutional analysis should not exclude the conspiratorial discourse. The institutional factors may explain how individuals or groups are motivated to conspire or to accept the conspiracy hypothesis; for example, conspiracy theories can be engines of "popular resistance", which requires transparency and legitimacy of the military and intelligence institutions (Hellinger, 2003, p. 205).

Conspiracy theories can emerge due to the „excess of institution" or due to the disappearance of the structuring institutions. Timothy Melley (2000, p. VII), develops the „agency panic" concept, which shows the anxiety of losing autonomy or control, while many cultural expressions have lamented the decline of individual self-control and the increasing autonomy of social structures (government, corporate bureaucracies, mass-media).

The conspiracy theories claiming the shortfalls or the lack of institutional transparency are not special cases but a natural part of the democratic political system. Generally, the conspiracy theory is a palliative, whose use is caused by the excess or the lack of institutions, by our imperfectly regulated social order.

VI. Another essential interpretation of the conspiracy theories is **the myth**; they can be responses to the need of „re-enchantment" and participate to a reconfiguration of the human beliefs and the sublimation of religion in a secularized form (Taguieff, 2005, p. 255). **Raoul Girardet** gives us a description of the modern political myth, perceived as a fabrication or an interpretation which objectively challenges the reality, exercising „an explanatory function, providing keys to understand the present, forming an interpretative grill which seems to bring order in the disturbing chaos of facts and events" (Girardet, 1997, p. 4). The author believes that the extraordinary threat of the mythic structures is represented by their location into the background of some diverse and contradictory ideological systems.

According to Girardet, mythologies share „the terrified and terrifying image of the Organization", whose main features are: secrecy, rigorous internal organization and the hierarchical (pyramidal) structure. The aim of the Organization is linked to „the world domination, the governance of the sovereigns and nations, the enforcement of a planetary power in its own benefit" (Girardet, 1997, p. 24). Under the auspices of such organizations, the progress and the capitalist concentration disrupted the traditional lifestyle, generating turmoil, which is the environment of conspiratorial thinking. Extensively proliferated within the disordered societies, the conspiracy myth reflects confusion and collective anxiety. Through the personification of the Evil or through reducing it to a single reality the myth becomes revealing and the victim is released from the fear of the incomprehensible.

The author also notes that the burden of history is heavy within the conspiracy mythology: „almost none of its manifestations or ways of expression cannot be associated directly or indirectly to some **relative precise facts**, whenever easily verifiable and distinguishable in their concreteness" (Girardet, 1997, p. 37). For example, the Masonic conspiracy, denounced by Barruel soon after the French Revolution, is not a pure invention; the idea is rooted in **authentic** historical facts that confirm the role of the fraternity as a political pressure group or as an ideological control tool.

3. The *rothbardian* argument on conspiratorial reasoning

The partisans of the liberal doctrine are constantly expressing their disagreement regarding the disruption of the free market mechanism by forces like: the state, monopolistic companies, institutions of global governance, etc.; therefore, in their speech we notice a strong tendency of incrimination or a certain interest towards identifying those factors that pervert economic freedom.

The economist Murray Rothbard was an advocate of the conspiratorial vision of the history; he supported the idea that wealthy or influential individuals are conspiring to ensure their political power, using state intervention - a consequence of the fact that they cannot effectively compete in the free market. The author discusses the problem of conspiracy in „The conspiracy theory of history revisited", an article that starts from the observation that any analysis of how political and economic interests interlock, and the initiators of such analysis, are invariably negative labeled by the Establishment as „conspiracy theory of history", „paranoid", „economic determinist", etc. (Rothbard, 2008).

In his work „Egalitarianism as a Revolt Against Nature and Other Essays", Rothbard explains how the state wants to inculcate the aversion to conspiracy theories, since searching for conspiracies is searching for the reasons and the makers of historical facts. In fact, if the tyranny, the corruption or the aggressive wars are perceived by the citizens as results of some „mysterious" social forces or as an imperfect state of the world, the passiveness becomes sovereign; the general liability on some events is not arousing the indignation or the rebellion of the citizens against state iniquities. Therefore, the conspiracy theories may threaten the system by causing social doubts on the ideological propaganda of the state (Rothbard, 2000, p. 68).

In his article on the conspiracy theory of history, the author underlines that there is no coincidence that the conspiratorial analysis are performed by extremists or system outsiders. „For it is vital to the continued rule of the State apparatus that it has legitimacy and even sanctity in the eyes of the public, and it is vital to that sanctity that our politicians and bureaucrats be deemed to be disembodied spirits solely devoted to the *public good*. Once let the cat out of the bag that these spirits are all too often grounded in the solid earth of advancing a set of economic interests through use of the State, and the basic mystique of government begins to collapse.” (Rothbard, 1977).

The concrete example given by Rothbard is related to Adam Smith’s approach, concerning the conspiratorial monopoly. If the Congress passed a law raising the steel tariff or imposing import quotas on steel, it is easy to understand why: there was a pressure from the lobbyists in the domestic steel industry to keep out efficient foreign competitors. The conspiratorial reasoning comes with the question *„Cui bono?”*(„Who benefits?”), therefore it is recommended to verify if the beneficiaries of a certain measure are proactively acting (lobbying or exerting pressure).

Rothbard sees the conspiracy analyst as a praxeologist, believing that people act purposively, that they make conscious choices to employ means in order to arrive at goals (Rothbard, 1977). He also suggests that the opponents of „conspiracy” analysis are naively believing in random and unplanned events, in the lack of purposive choice and planning.

It must be said that, generally, the conspiratorial reflections are powered by astounding situations and may turn into speculations or implausible allegations. The conspiratorial reasoning helps us to ground to reality; according to Rothbard only the naive refuses to recognize the interlocking of political and economic interests in government decisions; to deny these interests is to ignore an essential tool for analyzing the world in which we live. The interference of private interests in the government cannot be concealed by annihilating the conspiracy hypothesis with the dogmatic criteria of social sciences; or by simply labeling the conspiratorial reasoning as paranoid conspiracy thinking.

4. Epistemological remarks on the conspiratorial reasoning

The conspiratorial reasoning is positioned in the inductive area, due to its orientation from the specific to the general plan and the drawing of its conclusions from the accumulated evidence. Although facts determine the researcher perspective, we can still identify *a priori* elements, like intuition leading to some fundamental questions that set the purpose of the research; it is why we believe that any inductive process implies deduction. In fact, there is a thin line between what we call empirical discovery and what we think we have discovered, relating to our coordinates (theories, hypotheses, assumptions); at time zero of the research all the facts are framed in their conceptual significance contained in some previous accepted theories.

Unlike the private subjective science, the field of science is a belief system based on the application of rigorous methods of validation, claiming objectivity. However, a close analysis on the variety of scientific responses shows that the objectivity of the scientific knowledge can be vitiated by the political regime, the doctrinal field of the researcher or by the incomplete manner in which economic and social phenomena are analyzed – that means, ignoring the context that has powered and maintained them, ignoring the psychosocial motivations that led to specific behaviors of the economic actors.

A complete understanding of the facts/economic processes involves analyzing all the versions (even the conspiracy ones) and a proper identification of the source. Excepting the uncontrollable natural phenomena, the source is human in all contexts. Generally, people are deliberately acting, so hazard cannot be considered the main generator of economic phenomena. For example, we cannot get a realistic answer if we see the economic crisis as a product of uncontrolled capitalism, or as a result of excessive forces: state or market- this will be a general, disinterested, passive way of approaching the problem. An approach focused on the source will subordinate to the conspiratorial reasoning, inspecting the origin of the credit expansion which leads to depression. The artificial boom induced by the central bank through monetary expansion left deep wounds, subsequently „patched" by the savior support of the state. Therefore, it is **the actors** that handle these institutions and their private interests that we must focus on; that interests lead to the perpetuation of error, to a repeated history.

Conspiratorial reasoning is subject to the methodological individualism, trying to explain the socio-economic phenomena resulting from individual actions and focusing on intentionality and motivation. Human action is subordinated to intentionality and intentionality is subordinated to motivation; to expand this logic to social phenomena may seem difficult, due to the apparent lack of intentionality. Max Weber wrote that within the study of social phenomena, collectivities such as the state, associations, corporations and foundations, should all be treated solely as a result of the organized private actions, since the individuals are the only ones who can engage in subjectively perceived actions (Weber, 1968, p. 13). Friedrich von Hayek also wrote that „there is no other way toward an understanding of social phenomena but through our understanding of directed over other people and guided by their expected behavior" (Hayek, 1980, p. 6). Ignoring the individual perspective can lead to an overestimation of our powers of rational planning and control, and thus to fall into „rationalism". By contrast, the central virtue of methodological individualism is that it helps us to see the limitations of our own reasons (Hayek, 1944, p. 33). For Hayek, the desire of the social sciences to compete the physical sciences leads to neglecting the intentional states in favor of statistical correlations, and therefore, to the lack of comprehensibility in explaining the economic phenomena.

Another important feature of the conspiratorial reasoning is the exclusive incidence over the „elite area", where the economic, social and political actors are the makers of important decision for both, the public and the private sector. The elites are powerful (formally or politically) and representative for our whole society, since they bring together privileged individuals, with a superior economical or intellectual status. The elitist groups include: politicians, mass-media or corporation owners, military officers, etc.; even if the activity of these categories has a public purpose, they cannot be absolved from honoring their personal or their group motivations; we cannot pretend that their motivation can always resonate with the public good.

Without limiting our explanations to abstract entities (e.g. the state, the company), we can identify the main interest groups that used to fuel and continue to direct the economic processes according to their own purposes, with the help of the government. The elite groups can be: (1) **structural:** military, political and economic, including financial oligarchies, bankers or shareholders of the central banks, shareholders of the large corporations (e.g. Bilderberg); (2) **transnational**: ethnic or social (including the most „hunted" categories of conspiracy theory, the Jews and Freemasonry).

In fact, the great powers imperialism, the development of international banking, the propagation of certain doctrines to fundamentalism are the prerogatives of the dominating elites, which, in a conspiratorial perspective, undemocratically acted and exercised their power and influence to achieve their private goals, displaying a false concern for the social welfare. The power elite conspiracy idea cannot be classified as a paranoid collective representation since we have important evidence of strong, cohesive groups achieving their goals, in the history of central banks and credit, in the history of imperialistic expansion and trade or in the history of some politically influent organizations (e.g. The Bilderberg Group, The Trilateral Commission or The Council of Foreign Relations). Therefore, we subscribe to the *rothbardian* view, according to which the understanding of historical events should be adapted to the analysis of the political and ruling classes.

Throughout the history, power and wealth were the main motives that governed human action, leading to progress and civilization. We believe that all the systemic anomalies are matter of greed. It is argued, in the economic science, that it is not the greed fueling the economy but the pursuit of the individual benefits. In fact, only greed underlies the crisis and the immoral capitalist system. Capitalism is not bounding business and virtue, so the individual interest is not subordinated to morality and affection. The antinomy morality-materialism is the background for social dissatisfaction and for the conspiracy rhetoric.

In its current form, Economics assigns an insignificant place for philosophical debates, ethics and morality. Analyzing, metering and standardizing lead to sterile findings, which cannot prescribe the norms or the values needed for healthy interpersonal relationships. It is the reason why economic and social relations have become simple exercises of pursuing the individual interest; it is why we notice an excessive concern for the material need, leading to the estrangement of the individual from the nature and his fellow man.

Final remarks

Reflecting on the existence of God, Voltaire realized that any watch must have a watchmaker. The same logic is taken by the conspiracy theorists that refuse to accept hazard as a primary source of the representative events in the human history. Conspiracy theories try to decode social order by identifying patterns – a process that can be paranoid, naive or scientifically rigorous. The diversity of conspiracy researchers and information sources makes the results more accessible to the public, but these results are questioned by scientists due to the flawed means of analysis, the risk of precarious connections and the naive causality. However we cannot ignore the importance of conspiratorial reasoning; also the paranoid thinking way cannot be generalized

Conspiratorial thinking is a response to the imperfect socio-economic relations, from micro to macro scale; it is specific to an environment dominated by uncertainty, where the commercial interest and the state interest are confusing, where the national and international legislation permits the abuse of power, where the economic transactions are preceded by political games and the private interest of politicians overlaps the public good, where the concept of freedom is shaped by power, not by ethics or morality.

The positivist intellectual paradigms reject conspiratorial theorizing, diminishing the importance of intentionality and ignoring the power abuse hypothesis within the interventionist systems. The main advantage of conspiracy theory is promoting the conspiratorial reasoning, a causal reasoning that aims to identify the disturbing factors of the natural order by placing the group or the individual motivations as central topic of the economic analysis. Conspiratorial reasoning is following the particular interests or the beneficiaries in order to determine their implication as usurpers of the spontaneous order; it can be extended beyond the „visible” scene of economy to the „invisible” one, to the top, where the decision-making elites are responsible for resource exploitation, triggering wars, military industry, population control, etc. We believe that ignoring the activity of power elites and their organizations represents a fundamental error in explaining the major social and economic phenomena; also, ignoring intentionality and private interests leads us to the false conclusion that the evolution and consequences of different phenomena are unintentional.

The strong desire for scientific objectivity can lead us to ignore the context as to neglect obvious truths like: the natural disposition of the imperialist elites toward domination and conflict; the harmful activity of the central banks; the widening gap between the rich and the poor, despite all human progress, etc. Therefore we insist upon the conspiratorial reasoning, a reasoning that enhances the scientific discourse, bringing a new spirit from facts and ideas behind the economic scene, overcoming the quantitative, mechanistic, algorithmic and amoral contemporary scientific approach.

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EFFECTIVENESS AND LIMITATIONS OF MONETARY POLICY INSTRUMENTS IN ROMANIA AND THE EUROPEAN UNION

Zina CIORAN*

Abstract: *The complexity of the monetary phenomenon as well as the effects that it induces in the social and economic life of the countries around the world have represented and still represent the subject of much controversy and dispute. The current forms of the monetary circulation organization in different countries, internationally as well, represent the result of a continuous process of changes and innovations in the monetary area. The purpose of this article is to present aspects of the monetary policy and its instruments which have evolved according to the historical conditions of each period. The paper is also a presentation of effectiveness and limits of the monetary policy instruments and their role in solving the current economic problems for which the governments seek solutions. As a consequence to the analysis, it can be seen that in most cases it uses a mixture of monetary policy instruments because, when acting in a complementary way, they have a higher efficiency.*

Keywords: monetary policy; inflation; Central Banks; monetary policy instruments; money supply
JEL Classification: E31; E43; E52; E58

Introduction

In order to implement a monetary policy, the monetary authority uses a set of monetary instruments which act in order to achieve objectives both internally (low inflation, the realization of a potential GDP) as well as the performance of correlations externally.

In order to analyze monetary policy instruments we have to start from the monetary policy objectives. The concept of monetary policy is defined by the well-known Professor Costin Kiritescu as being the "ensemble of monetary measures taken by the state and the central bank to achieve a balance between the money supply in circulation and the economy’s need for money or to influence in a certain way the economic conjuncture" (Kiritescu, 1982, p. 244).

According to officials of the U.S. Federal System, the "monetary policy refers to actions taken by the central bank regarding the availability and the coin and credit prices, in order to contribute to the performance of the national economic objectives" (www.federalreserve.gov).

Taking into account the objectives, Angelescu (2004, p. 90) states that: "the monetary instruments are represented by actions of the monetary authority on the money supply in circulation to ensure macroeconomic stability."

We can find a clear definition in Bindseil (2004, p. 8) who defines monetary policy instruments as the available means used by the central bank to achieve operational objectives.

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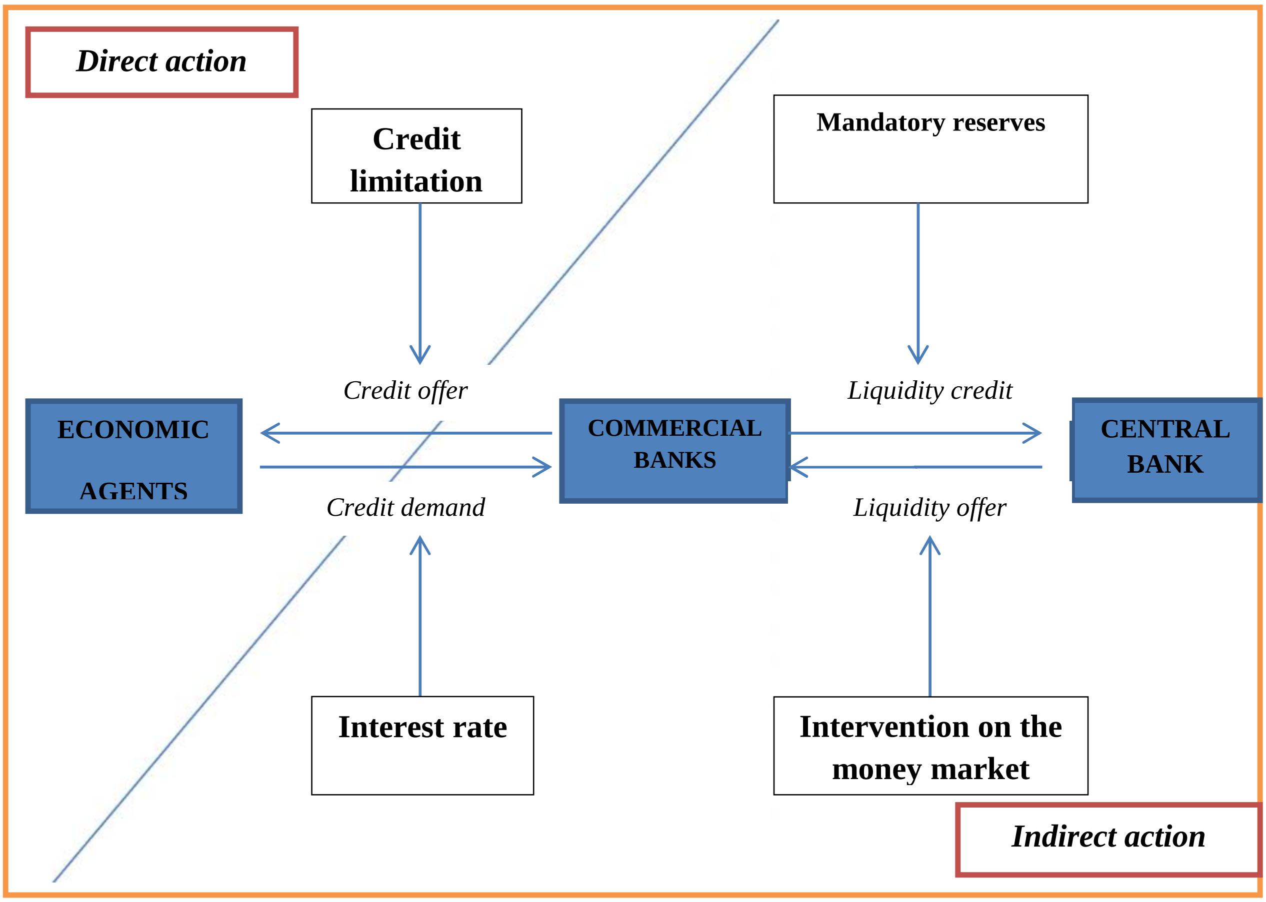
Considering the definition of monetary instruments, we can say that by means of the monetary policy one acts on the overall money supply. But it is quite difficult to directly influence the volume of coin issue because the money supply variations due to external transactions are subject to some factors that escape essentially the monetary authorities.

1. Direct and indirect monetary policy instruments used by the National Bank of Romania (NRB)

To achieve the main objective of the monetary policy, monetary authorities act on the money supply regulation and on the interest rate through monetary policy instruments. The decision to use certain monetary policy instruments should be based on their ability to be used in an effective and appropriate manner to correct the money market and to develop the real economy.

The money policy and its instruments have evolved according to the historical conditions of each period but their main goal remained the price stability. Monetary policy instruments act both internally and externally. Faugère (2000, p. 60) made a classification of monetary instruments in this regard, therefore, internally, to influence the development of money supply and interest rate, one can use two types of instruments: instruments that work in the area of the liquidity bank, acting on the monetary plan and instruments that point to limiting lending practices by banks, acting in terms of credit.

Figure 1 - Methods of monetary policy action



Source: Faugere, 2000

The direct action consists in directly influencing the volume of the distributed credit locking it to a specified level, which represents the credit framing. Indirect action focuses on the factors influencing the money supply and credit level. There are two major types of indirect action, that is: on the credit demand through scheduled payments and on the credit offer through bank liquidity.

The monetary policy adjusts money supply through credit, which relies in its action on three components: economic agents that require loans, banks that offer credit but need cash and the central bank that provides liquidity.

The direct action shows that credit demand depends on the interest rate, that is, the credit cost. Credit demand increases as the interest rate decreases. Therefore, when modifying the interest rate, one acts on loan application, on the credit volume, and thus, on the money supply.

In regards to the second type of action we can say that as long as the credit supply of the banks is related to the amount of money of the central bank owned by the banks, the indirect action on the credit supply passes through bank liquidity. The monetary authorities can act on the demand for money by modifying the mandatory reserves that banks must constitute at the central bank, or they can act on the money supply, like the central bank through an easier access to this coin.

Given this distinction between direct and indirect instruments of monetary policy, the chart shows that the direct monetary policy instruments establish and enforce certain limits on the monetary activity plan by normative acts, while the indirect instruments act by means of the market to significantly influence certain conditions regarding the supply and demand.

To achieve the objectives of monetary policy, one acts through indirect intervention instruments, that is on the money supply through bank liquidity. Indirect intervention instruments include: bank re-financing, open - market policy and the bank reserve policy’s minimal requirements, while direct intervention or secondary instruments include framing or limitation of credit loans and selectivity.

Monetary policy instruments adopted by the NRB were significantly influenced due to the reorganization of the banking system in 1991 on credit and interest rate liberalization. Losing the control over the credit distribution in the economy and over the level of interest rates, NRB had to appeal to a number of regulations to introduce of indirect money policy instruments, such as the mechanism of refinancing commercial banks, bank reserves’ minimal requirements and money market operations (open - market).

The refinancing fee (the rediscount fee) is an instrument of monetary control that contains a set of requirements imposed by the central bank in order to influence the level of the credit granted by it to the banking system. The Central Bank lends banks directly by rediscount, or indirectly, through interbank market. Rediscounting implies by the central bank’s acquisition of the discounted savings bonds from commercial banks, for which it pays an interest called rediscount fee. Thus, the central bank can influence the commercial bank lending, by handling the discounting (or rediscount) fee. The rediscount fee will influence the discounting fee and it will always be less than it. Thus, if the central bank wants to increase the amount of money given to the commercial banks it will reduce the discounting fee, and if it wants to reduce the amount of money, it will increase the discounting fee. This is the price effect of the rediscounting mechanism.

The quantitative and value effects of the rediscount fee demonstrate an increased effectiveness of this monetary policy instrument. Therefore, discounting fee policy represents an instrument of monetary control and a privileged means of central bank intervention on bank liquidity, through this mechanism, commercial banks being able to reconstitute the necessary liquidity to meet their currency conversion obligations.

Rediscount operations represent a requirement for a commercial bank with debts to the central bank, in order to be able to issue currency. This way of refinancing exercises a powerful quantitative effect on the money supply – as a consequence to the possibility of resorting to rediscounting, commercial banks may also grant long-term loans, although the available lending resources are on short-term.

The rediscount fee particularly influences interest rates practiced on short-term loans. In exchange, long-term interest rates are related to the short-term ones, this relationship being established through the intervention as a distinct factor of the securities' deadline and not by the simple substitution of the capital investment on short-term with the long term one.

Rediscounting also has a special influence on the interest rates afferent to the short-term public debt, so that when the state treasury aims placing on the money market the treasury bills, their capacity be at least equal to the rediscount fee.

The rediscount fee also determines the maximum interest rate at which commercial banks agree to get loans, in order to regulate their redundancies and liquidity deficits. Thus, the interest rate on the money market cannot be higher than the rediscount fee because by paying the latter, banks are certain that they will gain refinancing from the central bank. However, there are situations in which the interest rate on the money market exceeds the rediscount fee, banks preferring to pay a higher interest rate in order not to be monitored with debts to the central bank.

As a general rule, however, the rediscount fee represents the maximum limit of the interest rate on the money market with a main role in forming the whole rate structure of interests prevailing in the economy.

If we are referring to the rediscount fee limits, these can be summarized as follows (Capraru, 2009):

• the central bank's practice of a simple, rigid policy (with a single fee and no limit) - this limit affects the effectiveness of the central bank's monetary policy, which may run without a result on the commercial banks' activity even in case they resort to refinancing;

• limited use - only if commercial banks need refinance can we speak of the rediscount fee. This limitation emphasizes the commercial banks' degree of dependence regarding refinancing from the central bank. Thus, applying the rediscount policy is only manifested if there is a refinancing demand from the commercial banks. If it does not exist, the rediscount policy is devoid of purpose, having no applicability;

• the appearance of the "financing effect", which may prevent this monetary policy instrument's application - this effect is triggered when commercial banks are not motivated to provide certain categories of loans and therefore the central bank stimulates them by agreeing to rediscounting of the commercial effects afferent to these loans;

• the central bank's impossibility to deter, in times of high inflation, by means of the rediscount tax, the excess of demand for loans, since the loan demand elasticity compared to the interest rate is very low.

Despite these limitative aspects that sometimes delay the implementation of the rediscounting policy, handling this tax is one of the main monetary policy instruments, with a wide applicability in the contemporary world, signals sent through this channel by the monetary authorities modifying indeed the bank and monetary behaviors in the economy.

The refinancing fee (the rediscount fee) is a monetary policy instrument with great implications in the market economy and one of the most used instruments in Romania for the regulation of bank liquidity.

The reserve ratio (RRMO) is the only instrument that directly influences the economy and the money demand and supply. An increase of the RRMO – deflationary measure - has an impact in reducing lending at the level of commercial banks, to which the amount of money will be decreased, therefore so will the bank liquidity and the economic activity. To revive the lending, the minimal reserves should be reduced - inflationary measure - and the amount of money will grow and will also generate an increase in the economic activity, but in an inflationary environment. Commercial banks must maintain in the central bank, as deposits, a percentage of the deposits drawn from the population and economic agents. The minimal capital investments from the central bank have a low interest, but the main reason for constituting these deposits is not a benefit in money, but to maintain a certain level of liquidity of the commercial banks. We can say that RRMO is a money policy and credit instrument by means of which one can control the volume of loans granted by commercial banks, but it does not favor or disadvantage any bank since the RRMO level depends on the volume of deposits drawn from the population or the economic agents.

Due to the strong quantitative effect exercised on bank liquidity, minimum reserve policy is very effective especially in theory. It helps to improve the accuracy with which the central bank can guide its monetary policy towards achieving its objectives. It also helps to reduce the credit multiplier, achieving a control of the money supply. Applied gradually, this monetary policy instrument accelerates the accomplishment of long-term objectives.

Minimum reserve policy effectiveness also results from the fact that it is the only one able to intervene promptly when in the economy there would be a steady currency inflow. Under these circumstances, the application of the open-market policy would not be successful, the central bank not being able to absorb this liquidity through the sale of deeds, because this would lead to lower deeds and to an increase of the afferent interest rates.

Among the limitations which decrease the effectiveness of the application we mention that the central bank rarely resorts to this monetary policy instrument because it requires a difficult use in the case of the money supply's fine-tuning. Therefore, the mandatory reduction reserves or the mere anticipation causes monetary inflation, while the increase of mandatory reserves or the anticipation of this growth creates monetary deflation. Given the fact that this policy generates instability, changes in the reserve rates are low, they are announced in advance and accompanied by opposite interventions of the central bank on the money market to alleviate this action's type of brutality.

Another limitation is that, unlike the open-market policy, the minimum reserve policy is not selective: the modification of minimal reserve ratio influences the liquidity of all banks, notwithstanding their specific situation.

Also, two major disadvantages of this monetary policy instrument are represented by the reduced flexibility compared to other instruments, especially in the short term and by the increase of the bank intermediation cost due to insufficient compensation of minimal reserve requirements.

Reserve ratio (RRMO) first appeared in the U.S. in 1913 and was introduced in Romania in 1992, aiming at both controlling liquidity in the economy and limiting commercial banks to create money of account through granted loans.

Open - market operations used by the NRB to adjust the money supply were conditioned by issuance of government securities. In 1997, the NBR initiated the first open market operations. According to art. 1 of Regulation no. 1 of March 30th, 2000, NRB's open - market operations involve at least one of the following transactions:

- repo operations - reverse transactions by means of which they want to increase liquidity (NRB buys from credit institutions eligible assets for transactions, which will be bought back later at a price set at the time of the transaction);
- reverse repo operations - reverse transactions by means of which they want to increase liquidity (NBR sells assets to credit institutions);
- Issuance of deposit certificates - NBR sells certificates of deposit to credit institutions, absorbing liquidity;
- drawing deposits – NRB draws deposits from credit institutions to reduce liquidity;
- currency swap - are simultaneous operations by means of which NRB injects liquidity - by sight buying convertible currency against leu and selling at a later date the same amount in convertible currency against leu - and absorbs liquidity – by sight sale of convertible currency

against the leu and the purchase at a later date of the same amount in convertible currency against leu;

- granting of collateralized loans by eligible assets for guarantee - NBR provides loans to credit institutions, leading to an increase of liquidity.

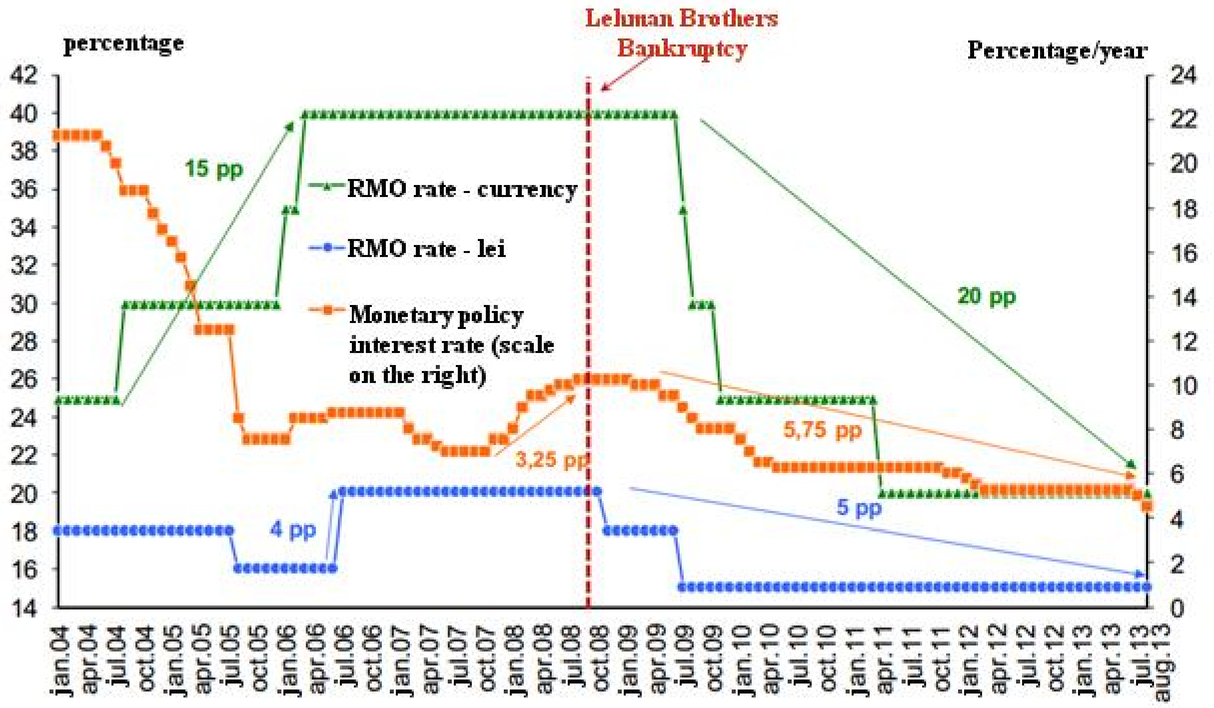
A greater effectiveness of the open - market policy compared to the rediscount policy can be demonstrated both by the quantitative and the price effect.

The open-market policy is a contractual policy, not a regulatory one, being achieved on a specific market (money market) to which circumstance it adapts instantaneously. The open market operations are flexible, precise, easily reversible, the decisions regarding market interventions can be implemented easily without administrative delay. Also, the central bank exercises a great control over the volume of open market operations, being able to trade bonds in the amounts it desires, practically, with no limits on their size. The central bank can alter the traded shares' negotiability degree, their ability to serve as a support for the open market operations, by means of the decision to buy or not certain types of securities or their purchase quota system. Also, open market operations can be performed with small steps, some with very small steps if necessary, this allowing the central bank to adjust its reserves correspondingly. By these instruments, the central bank can continuously adjust the monetary base, according to fluctuations of the interest rates and as information concerning impact of market factors on reserves is received. Although the open - market policy is more effective than the rediscount policy, both are based on the bank refinancing process. Therefore, this instrument also has a series of limitations.

The inelasticity of credit demand in relation to interest may diminish the price effect of open market operations and the foreign floating capital inflows drawn by high interest rates of the native market also reduces the price effect of the open market operations. Depending on the depth of the government securities market, open market operations can produce larger or smaller variations in the price of such securities, forcing the state to intervene in the bond market to maintain stable courses that impose the trust of security holders. Also, price variations that traded securities may incur through open-market operations may trigger negative effects on the value of the portfolio of banks securities, in case imbalances or sudden changes occur. Another limitation is that an increase in the public effect market volume leads to the increase of the public debt and budget deficit perpetuation, factors that may diminish the regulating role of open market operations on the banks' lending capacity and on the money supply in circulation. Meanwhile, if the central bank is not independent enough through open-market operations, the budget deficit can be indirectly financed, even if the Treasury's direct financing is forbidden.

The most important monetary policy instrument used by NRB is represented by the open market operations, its main functions being: guiding interest rates, money market liquidity control and providing information on the monetary policy direction. Both in certain developed countries, as well as in some that are in currently developing, open - market operations are the main instrument of monetary control, due to the favorable effects. They offer more flexibility in terms of volume of monetary policy operations initiated by the central bank, allow the establishment of impersonal relationships between market participants and allow the avoidance of market and economy inefficiencies as a result of direct control.

Figure 2 - Central Bank's action by means of monetary policy instruments



Source: BNR, available at: http://www.bnr.ro/PublicationDocuments.aspx?icid=6885

Monetary policy interest rate curve in the last decade highlights two essential aspects:

•On the one hand, monetary policy has foreseen the inflationary shocks;

•On the other hand, the interest rate also responds to some possible inflation sources that are latent in the case of the Romanian economy and only externalizes under stress: the inefficiency of the public sector (provision of resources in the public sector is achieved with increased costs and with minimal results) and substantial influence of exchange rate on inflationist anticipations (the exchange rate being easily influenced by internal and external events).

2. Monetary policy instruments used by the European Central Bank (ECB)

Monetary policy in the European Union has as feature a high level pragmatism in managing monetary issues, which means that, depending on various economic situations, to recur to any kind of instrument, whether direct or indirect.

ECB uses, at the euro zone level, a set of monetary policy instruments comprising various operations, facilities, restrictions or interventions regarding liquidity management, trading control terms on the financial market, deposits and credit evolution and exchange rate management. Specific instruments of ECB monetary policy define all the procedures, techniques and methods of direct or indirect intervention on monetary-financial variables of the Euro-system, whose operation aims primarily to maintain price stability and in the background, to stimulate the economic development of the integrated monetary area. The implementation procedure as well as that of application of these operations is delegated on the actions decentralization principle at the level of national central banks of the EMU Member States, coordinated in their approach by the resultant of the decision-making process exercised by the governing ECB bodies.

The main instruments used by the ECB are: open market operations, permanent financing facilities (Standing Facilities) and adjustment operations reserve (Reserve Operations).

Open market operations are those operations conducted by the Euro-system's central banks, at the ECB's initiative, being grouped into four categories, as follows: main refinancing operations, long-term refinancing operations, fine-tuning operations and structural operations.

The main refinancing operations represent the most important instrument of European monetary policy and consist in short-term loaning for the bank system (one week at the most). These refinancing operations of bank crediting services are guaranteed by collateral security, or are based on a repo transaction and are executed by the central banks of the Euro-system, by a standard procedure set by the ECB, decentralized and equitable for all bank institutions, provided that a set of minimum criteria required by the ECB regulation be fulfilled. Long-term refinancing is a wider version of the short-term refinancing one, the difference being in the period of maturity of the given loans, increased to a limit of three months;

Fine-tuning operations are actions preferentially achieved by the ECB in order to ensure their own liquidity or partial immediate absorption of market operations liquidities executed on the basis of some special agreements with partners selected in advance by an open ECB procedure.

Structural operations incorporate all the instruments used to regulate money supply and liquidity in the long term, oriented especially to concrete actions for the issuance and transaction of the deposit certificates or similar operations with treasury bills and other securities with maturity term.

The object of the **permanent credit facilities** is the "overnight" credits, immediate and short term cover, liquidity deficits in exchange for interests charged by the central banks and established at ECB’s indication. These tools enable the ECB to control needs and excess of immediate liquidity on the market and to fix the fluctuation margins of the referred short-term interests on the credit market.

By means of the **minimum mandatory reserve policy** promoted by the central banks of the Euro-system, a minimum mandatory reserve level is required in relation to the volume of liabilities held, other than those to central banks or the ECB. The minimum mandatory reserve mechanism strategically stabilizes on the one hand, the interest rates level on the money market by balancing the supply and the indirect control on the money demand permanently adapting to market conditions the liability structure from the financial intermediation department. On the other hand, using this tool reduces the risk of system crisis by optimizing the degree of credit institutions liquidity and of the market in general, it increases the policy credit control, thus leading to increased stability in the financial system. Remuneration of minimum mandatory reserves is executed at the interest rate level set for the main refinancing operations.

3. Necessity of a mix of monetary policy instruments

The need to mix monetary policy instruments results from the various needs that the central banks manifest in their actions by developing and implementing the monetary policy program. These needs involve (Isarescu, 2001, p. 166):

- ensuring the objectives related to money supply control in terms of existence of strong shocks generated at the level of money demand and supply;
- the possibility of a rapid adaptation both of the instruments and the operational objectives in order to reflect the institutional constraints that may adversely affect the action generated by the instruments;
- ensuring the achievement of other adjacent targets (the possibility of crisis prevention, normal functioning of the payment system in the economy);
- reflection of the macroeconomic conditions, generally, of the monetary policy type and the exchange rate regime adopted by the monetary authority.

The chosen mix of monetary policy instruments must ensure the interaction between macroeconomic dimension of monetary policy and the structural one. The necessary conditions to choose an effective mix of monetary policy instruments refer to:

• there is a close connection between various monetary policy instruments, so there must be an excellent coordination;

• monetary policy instruments must be continually adapted to the economy needs;

• between the used type of instruments and the level of development of the financial market there is a cause and effect relationship;

• choice of instrument type should be made based on economic and financial context;

• technology development has important implications in the field of monetary policy instruments.

Conclusions

Therefore, we can say that monetary policy instruments demonstrate their effectiveness when the central bank interferes among them to mitigate imbalances in the economy. In most cases it uses a mix of monetary policy instruments because acting in a complementary manner, they have a higher efficiency. That is why, to mitigate imbalances in the economy, the central bank does not use a single instrument. It is forced to turn to complementary actions using monetary policy instruments simultaneously or sequentially to achieve its own objectives. The limits particular to the monetary policy instrument can be compensated by the complementary action of another instrument. That being said indirect intervention instruments on liquidity must be applied in a complementary manner in order to achieve positive results in terms of monetary stability as the primary objective of macroeconomic policy.

Aknowledgements

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INTELLECTUAL CAPITAL: A CRITICAL APPROACH ON DEFINITIONS AND CATEGORIZATION

Diana GIOACASI*

Abstract: *Intellectual capital has become the leading resource for creating economic value and there are an important number of publications focused on this area of research. In spite of the interest for this area of research, the existence of different terms regarding intellectual capital makes the process of definition and classification difficult. The purpose of this study is to analyze the concepts related to intellectual capital by establishing the connections and correlations between the terms in order to make the term of intellectual capital fully understandable and also to explain how the components of intellectual capital can be structured.*

The analysis of intellectual capital definitions is significant because it is a first step in intangible factors understanding, having implications on the company pattern of knowledge evaluation.

Of all the terms analyzed, intangible assets allows a clear definition of its meaning, its components and thus provides insight into ways of assessing the knowledge of an entity.

Keywords: intellectual capital; intangible assets; knowledge management; intangible resources
JEL classification: M14; M41; D23; D83

Introduction

Intellectual capital is considered the most important resource of enterprise in order to provide financial health and value for business partners. In today's economy, knowledge of an enterprise is a vital resource for economic growth and value creation for business partners. The interest in this area of research manifested by large number of papers, empirical studies has determined the development of many terms that define the term of intellectual capital.

Despite the interest in intellectual capital, one can meet gaps in the use of concepts, with negative consequences on identifying components and assessment methods. Empirical studies use different concepts to express knowledge of the entity: intangible, intangible assets, intangible capital, intangible resources, intellectual capital and intellectual property.

In essence, these terms express the non-financial factors of knowledge-based enterprise, which can be measured and whose impact can be found in the value of a company. Accordingly, these terms are used similarly or differently to express the same concept depending on area and field research.

From a financial perspective, intellectual capital is the difference between market value and book value of an organization. This view is largely fought, because the market value of an organization suffers the influence of several factors that cannot be assimilated to the intellectual

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capital and on the other hand, the book value suffers both the influence of accounting system and international accounting standards.

The objective of this paper is to analyze both definitions of the intellectual capital and the manner of structuring its elements so they can be identified concept best defined and quantified, for only a precise knowledge of a phenomenon allows to identify its components, quantitative variables and assessments.

This work is a documentation platform for future research on assessment models of enterprise intangible knowledge. In evaluating concepts relating to intellectual capital, we took into account several aspects:

- Researcher field of activity, aiming to identify either a managerial perspective by establishing the component elements and the manner of organization in creating value for enterprise or an accounting perspective which is based on recognition criteria established by international accounting standards and accounting evaluation elements of intellectual capital.
- The scope of the concept used.
- Type of definition. Some definitions are conceptual by nature, others are based on the simple recognition of knowledge, while others focus on of the intellectual capital components.

Similar to many of the defining terms of the intellectual capital, there are a myriad of classifications of the intellectual capital. In some empirical studies, intellectual capital is classified according to the methods of assessment, while others classifies by their economic performance. This article aims to provide a correlation between concepts and major components in order to identify similarities and differences between the terms of manifestation of the intellectual capital.

1. Definition of intellectual capital

Most researchers use the concept of intellectual capital for expressing intangibles. In empirical studies, the term intangible or intellectual capital refers to knowledge of an enterprise. The concept of intellectual capital was attributed to John K Galbraith (1969). Porta and Olivier (2006) surveyed for identification and classification of intellectual capital for groups of companies, while Choong (2008) conducted an extensive analysis of various categories of definitions and classifications of intangible assets in order to create a common body of elements. Choong (2008) has classified intellectual capital into three main components: human capital, organizational capital (structural) and relational capital.

One of the most succinct definition of intellectual capital is provided by Sveiby (1997): "useful package of knowledge." It exists and also includes: organizational processes, patents, employee skills, information about customers, suppliers and business partners. Through this components elements, Brookings (1997) establishes that intellectual capital includes assets based on market knowledge, knowledge of human capital, intellectual property and technology enterprise. In terms of their object, intellectual capital is defined by Nahapiet and Ghospal (1998) as “knowledge and social skills knowledge of the community”, while Harrison and Sullivan (2000) talk about a “knowledge-based capital companies”

Another concept used in defining intangible knowledge is intangible intellectual property. Intellectual property consists of patents, copyrights, trademarks which are easier to value than other tangible assets and they are also implies a legal right to use for the property or owner.

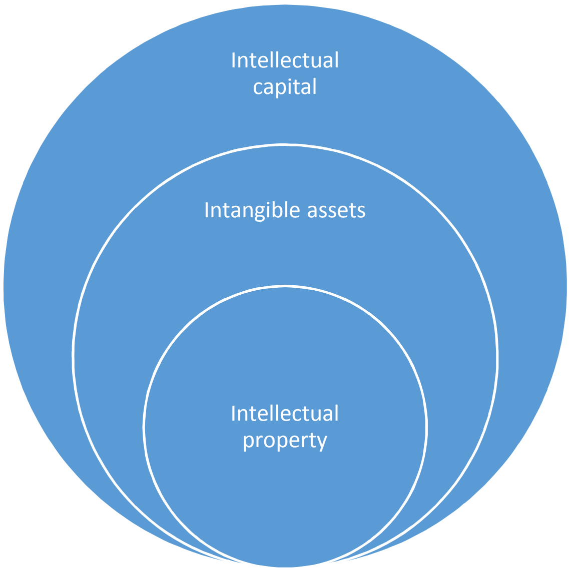
Smith (1994) defines intellectual property as “intangible assets are all items of business, additional working capital and tangible assets. They are elements, which after working capital and tangible assets, allowing an organization to function and contribute to an enterprise value", while Grandstrand (1999) defines as "quality directly related to creativity and knowledge". Compared with intellectual capital, defined as knowledge determined of enterprise value, intellectual property is a well-defined concept, providing a clear vision on components elements and it is a legal right of the entity that allows its identification in the book value.

Intangible asset concept was introduced in strategic management by Rich Hall (1989, 1992). Intangible assets are the result of past events and have three main characteristics: they have no physical form, are capable of generating future economic benefits and are legally protected by a right of use. Accounting standard IAS 38 establishes conditions in which intangible assets can be recognized in financial statements. An asset must be identifiable, controlled by the entity and differentiated from enterprise goodwill. Intangible asset is an asset interpreted as an asset without material substance.

Itami (1991) defines intangible assets from an accounting perspective, as follows “invisible assets that include a myriad of activities such as technology, customer confidence, brand, corporate culture and management ability” and Bouteiller (2000) defines them as follows “assets are the result past events with three characteristics: they have no physical form, are capable of generating future economic benefits and are legally protected”. On the other hand, Hall (1992) defines intangible assets in terms of impact on enterprise performance, calling it «crucial values that transform productive resources into value added activities”.

In Figure 1, is presented the relationship between concepts of the intellectual capital, identifying intellectual capital, intangible assets and intellectual property. With a similar meaning of concept of intellectual capital, intangible terms are also used, intangible resources, which expresses a company's intangible knowledge, with no existing criteria or clear line recognition of its components. Compared with intellectual capital, intangible assets define identifiable knowledge of the entreprise, controllable and perfect evaluable. Evaluation of the two concepts allows a performance analysis of a company from two perspectives: a managerial perspective that includes all the value generators elements to without quantifying them and an accounting perspective, which aims to identify the entity values to quantify them.

Figure 1 - Interdependencies between the concepts of intellectual capital



Source: authors' elaboration

2. Classification of intellectual capital

In the process of classification the intellectual capital components, most classifications follow the following structure: human capital, relational capital and structural capital (Edvinsson and Malone, 1997; Green and Ryan, 2005; Sveiby, 1997). This structure belongs to Sveiby (1997), who first made a classification of intellectual capital from an un-accounting perspective, classification which is classified as: employee competence, internal structure and external structure of organization. Pre-meet rankings follow the structure done by Sveiby, distinctions consisting in the terms used.

In the light of the concept used, one can identify several classifications. IASB (2004) classifies intangible assets into marketing knowledge, human resources, brands, copyrights, franchises, licenses, operating rights, trade secrets and trademarks. From this point of view, it identifies a classification of intangible assets in terms of the criteria for recognition of international accounting standards. Itami (1993) done a similar classification, classifying invisible assets in technology, consumer confidence, brand, corporate culture and management skills.

Human capital represents the individual skills, knowledge, talent and experience of both employees and managers. Human capital is considered the most important asset of the enterprise, as is a permanent source of creativity and innovation (Bontis, 1998, Brookings, 1996, Edvinsson and Malone, 1999; Stewart, 1999). It is also considered the most risky, because does not belong to the company, but to each employee, as part of the organization (Edvinsson, 1997).

Relational capital includes all the resources involved in the relationship between the entity and its partners (customers, investors, suppliers) and all the knowledge embedded in external relations. Elements of the relational capital are: market share, profitability, customer relationship with business partners, etc.

Structural capital refers to the internal structure of the organization, processes and procedures. It includes patents, organizational processes, strategic and administrative technologies. (Edvinsson and Malone, 1997). Fundamentally, structural capital refers to the internal organization that supports human capital to create value for organization and financial health. (Edvinsson and Malone, 1997; Sveiby, 1997). Other opinions say that is a combination of organizational culture, organizational processes, information systems and intellectual property. Elements that made structural capital are: technology, inventions, databases, culture, hardware, software, patents, trademarks and systems, etc.

Conclusions

This study provides information about intellectual capital terminology both in terms of capital accounting and managerial perspective. In evaluating these terms, it is important that intangibles to be well understood in order to demarcate the area of activity of each term for determining correlations and interdependencies between them and identifying the concept of better defined and quantified for evaluating performance through the impact of intangible factors.

It is noted that all terms used in defining the concept of intellectual capital express the same aspect: invisible knowledge of an entity. In terms of compensation between terms, the concept of intellectual capital is the broadest in scope, including in its area of action, all terms stated, without providing information for quantification the intangible knowledge of an enterprise, while intellectual property is component part of intangible assets, easily quantifiable, by recognizing a legal right to use them.

In terms of research area, we make a differentiation between accountants scientists and un-accountants researchers based on the terms they use as follows: accountants uses the concept of intangible assets and intellectual property on the basis of recognition of assets, while management specialists uses the concept of intellectual capital or intangible resources. In terms regarding manner of expression of the definition given, I can say that some definitions are conceptual, others follow the structure of intellectual capital, while others relate to matters related to the objectives and role in the expression intangible value and performance of an enterprise.

In essence, intellectual capital can be classified into three essential components: human capital, organizational capital or internal structure of the organization with partners. Although using different terminology, most researchers accept Sveiby's classification, admitting that intangibles can be grouped into three broad categories: employee skills, capital structure determined by the organization's internal and external relations of the organization.

From the analysis of essential terms expressing the concept of intellectual capital, we concluded that intangible assets are best defined in terms of area extension and allow a clear evaluation of major components and performance impact and value of an enterprise, which includes its use in a future research.

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ROMANIA - METAMORPHOSIS OF A DEVELOPING COUNTRY AND THE LONG-TERM IMPACT OF MIGRATION

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Abstract: *This insight will serve to highlight the trend experienced by the Romanian population, since 1990 until present, focusing on two main dimensions, one that takes into account the demographic aspects and the other that consider the economic side. In first part, the article talks about the problem raised by declining birth rate which leads to a negative natural balance and a long-term damage concerning young workforce. The second part brings forward the problem of emigration which influences the rate of change and also population composition in Romania. A pertinent question is "How did it get here?" and which is the real impact of this behaviour adopted by many citizens.*

Keywords: migration; young workforce; economy; demography; Romania
JEL Classification: O15

Introduction

Romania, a developing country, currently suffers from a lack of human resources at all levels, which is impaired as a result of numerous restructurings, privatization or decays that occurred during these decades. Decreasing the demand, supply sought new solutions to survive and adapt to the metamorphosis undergone by Romania. Considering these changes, from the early 90s until now, can be seen at the demographic level, the impact of a distorted capitalist mechanism, which caused fluctuations in the population structure by age. A pertinent question to which we try to answer in this article is "How did it get here?" and which is the real impact of migration.

Numerous studies about Romania bring to the forefront the issue of demographic change that consider population decrease through natural component and migration, showing the advantages and disadvantages of the two mechanisms which complete a society. This is understandable if we consider that the population decreased between 1992 and 2005 with a million people officially and continues to decline. This trend is driven by low fertility, which has a value of 1.3 children per woman, and the external migration, with about 2 million Romanian abroad while the number of illegal emigrants is unknown.

This insight will serve to highlight the trend experienced by the Romanian population from the 1990s until present focusing on two main dimensions, one that takes into account the economic sector and another on the demographic. It should be noted also that the analysis want to surprise the periods

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of development and decline that took part in the Romanian population in a period of approximately two decades. The focus will be on strength factors converge to trigger migration and its side effects. Present approach allows an analytic variety on the individual that supports this phenomenon, which will be seen quantitatively and qualitatively in order to eliminate any statistical mismatch.

1. Material and methods (Maybe Data, but surely not Material)

In order to achieve the goal of this approach, the first method is bibliographic documentation in order to deepen the concepts of migration and to identify the impact of migration over this phenomenon. Another method used is the comparative one common to all sciences, useful for highlighting different cases depending on the workforce and migration intensity.

For data interpretation were used mapping method and methods for processing statistical data from the website of the National Population Statistics. In order to solve our problems, methods of statistical analysis are necessary, given that we are dealing with a large amount of statistical data. For mapping were used Philcarto and Adobe Illustrator, and for data processing was used Microsoft Excel program.

2. Decays in the Romanian population

The 90s were characterized by political and socio-economic imbalances that caused the disappearance of 40% of jobs in the Romanian economy and the emergence of migration driven by different mechanisms. In other words, after 1989 Romania lost population due to the return of Germans, Hungarians and Jews in nation states, to migration visas based on traditional countries of emigration as Canada, USA and Australia, migration for study, for work under a contract or clandestine later transformed into definitive emigration. This situation has been completed by the constant decrease from year to year of birth as a consequence of the extreme natalist policies.

From any perspective we look, Romania does not have migrationist policies that lead to a wide demographic balance, and the measures taken after 1990 are represented by the establishment of institutions whose activities had and have only a reactive character (Roman, 2010). In this regard Ghetau (2007), exonerate state reaction claiming that migration both internally and externally doesn‘t have so far negative economic consequences if is to relate to the economy and the number of jobs.

Analysis of migration effect on birth rate and other determinants not always get the same conclusions sometimes having a positive or negative effect on the birth rate. Migration should lead to an increase in the birth rate due to structural factors, but lead to fertility decline due to behavioural factors. Generally after one generation the impact is visible. Studies on the effects of migration in Romania shows that if Western countries will continue to attract labor from our country, economic growth will be affected significantly.

Most of the localities show decreasing in population from a natural deficit and a negative migration balance. If 1990 and 1991 (Urse, 2001, p. 29) were revealed by a rapid decrease in population on the grounds of major external migration, the following years were the direct product of transition of a state consumed nearly 40 years of socialism damaged by toxic ideas.

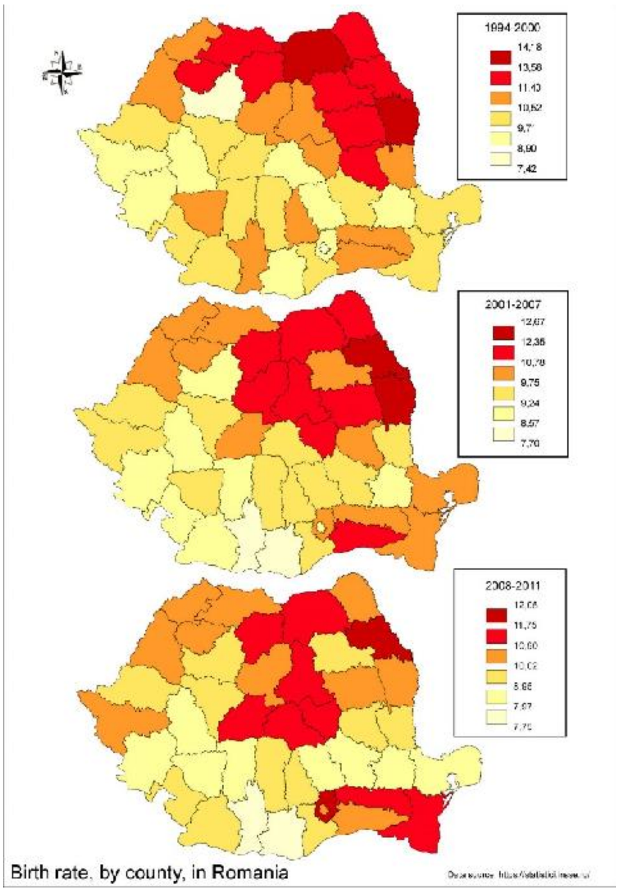
Although small birth rate can be explained as an extreme discharge due natalist policy before 90s' for this reason does not apply to the generations born after this period or having reached maturity in the 90's. Thus it is quite difficult to identify a single cause of birth rate decreasing as there are integrated, in addition to the economic factor, those elements that takes in count the reality of a state, as behaviors and different mentalities, moral degradation of society, job uncertainty or possibility to buy a house plus the way how it intervenes in the application of legislation for citizen.

At first glance the map from Fig. 1, that captures the birth values according to statistical data on about 17 years, denounce a decrease in most of the counties in Romania. In statistical terms this decrease is considering values decreased from 13.6 ‰ in 1990 live births to values under 9 ‰ live births in 2011. While in the first period both areas east and north (Vaslui, Iasi, Galati, Botosani, Suceava, Maramures, etc.) have positive values, during the following periods there is a translation to the center and to the capital. However this position maintained for years among counties with positive values (especially in rural areas) is demolished by political, social and economic transformations.

Bucharest, together with Ilfov, county differ from the rest of the areas by an increase from 7.42‰ to 10 ‰. This increase is due to human capital just came from neighboring counties to study or looking for a job. This great pole of attraction is joined by western counties as Timis, Arad, Bihor with a large opening to Western ideals and economic opportunities. Besides these poles of attraction stands Olt and Teleorman counties, whose values are a warning for the future of other neighboring counties (Dolj, Mehedinti, Gorj, Valcea, Prahova, Buzau, Braila, Hunedoara, Caras-Severin) faced with a negative birth rate.

Comparing birth rate and emigration it can be noticed that once the number of emigrants increases, in the eastern counties, birth rate decreases. This phenomenon is easy to understand if we consider that generally young fertile population migrates. Of course there can be also about economic conditions that are favourable to enable a family, and the emancipation of women under the influence of modernism, the extension of studies or simply the desire to emigrate.

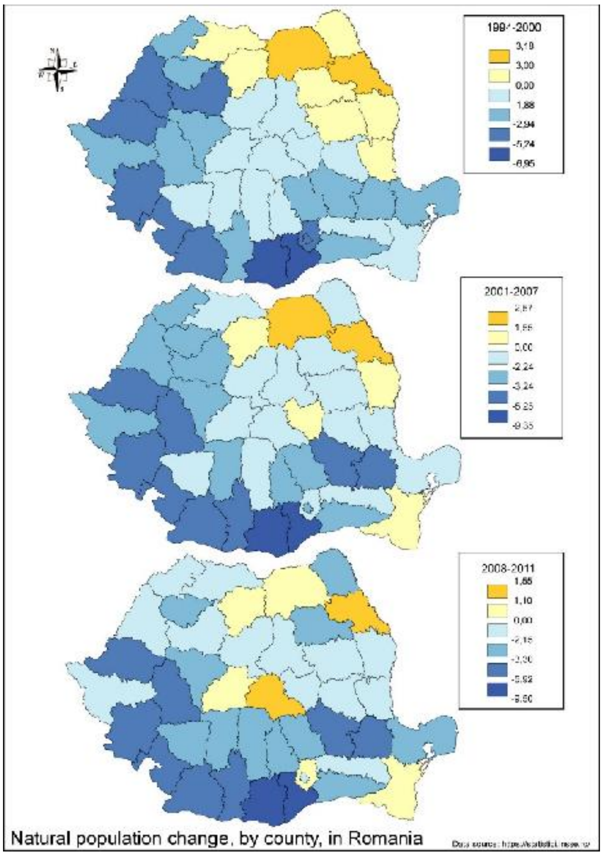
Figure 1 - Birth rate, by county, in Romania



Source: National Institute of Statistics

Map of natural balance points involution of natural population balance and shows also counties that underwent radical transformations to demographic level. Mapping of the data reveals a heterogeneous and unstable territory in terms of the evolution of natural balance where Ilfov register a sustained growth after 2000 until now. Surprising is the evolution of Sibiu and Brasov counties which for 13 years had values on the limit, and after 2007, with the accession of Romania to the EU, register positive values due to young immigrants attracted by the opportunities offered by European investments. It can also be seen and the downward trend of the counties in eastern and northern Romania where only Iasi, a big university and economical pole, with counties registering the highest percentage of ruralisation, Suceava and Bistrita-Nasaud, retain its positive demographic behavior. We should not overlook the counties located in the south of the country, Caras-Severin, Dolj, Teleorman, Olt, Giurgiu, which recorded the lowest values of natural balance due to a loss of young population and accelerated aging resulted in increased mortality. The slow collapse of natural balance has consequences extending over the renewal of future generations. It‘s also important to note, however, that Romania enjoys an average level of mortality and increasing life expectancy, resulting in a significant population aging.

Figure 2 - Natural population change, by county, in Romania



Source: National Institute of Statistics

Aging effects were felt in Romania, starting January 1, 2000, when the elderly population outnumber young people. Thus, on January 1, 2000, total official Romanian population was 22,455,485 people. The number of people over 60 years was 4,196,409 people (18.7%) and surpassed with 36,842 persons the aged 0 to 14 years which represented 4,159,567 people (18.5%) (National Council for the Elderly, 2009, p. 18).

3. Migration - a complex causality

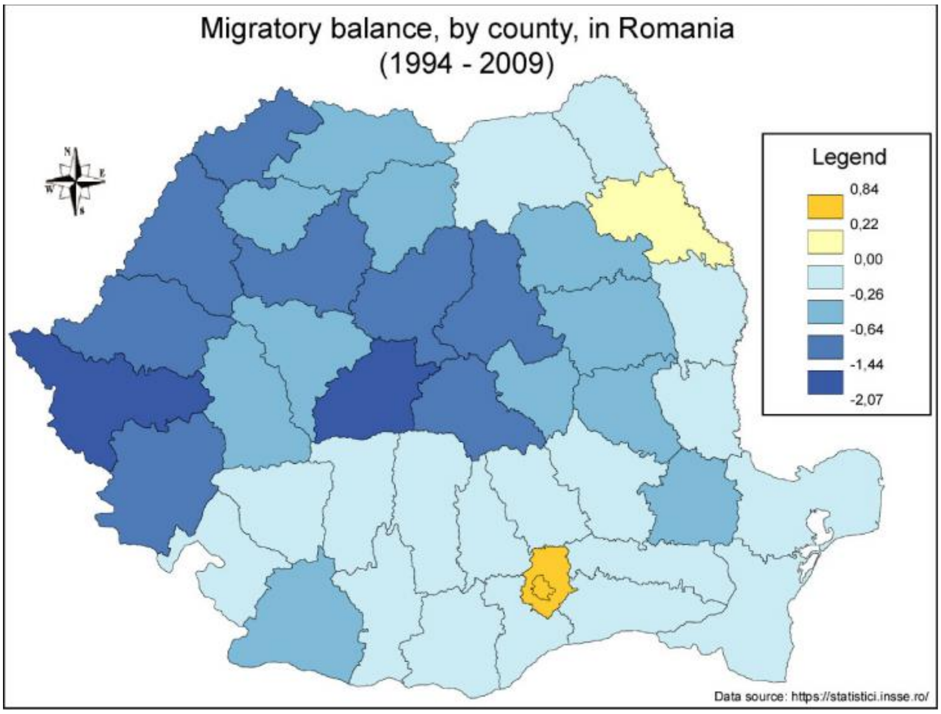
Migration has trained and still trains a large number of people as a result of shaping a so-called "emigration provisions" began before 1989 and developed after 1990 as a result of massive restructuring in all economic branches. This provision will actually translate through transmission of beliefs and information between actual emigrants and those who are tempted by an unknown world, finally ending by being influenced. This imbalance term continued in all environments, especially in urban areas in the first period and into the countryside. Thus most of those involved in permanent migration movement are from urban areas and villagers are the source of temporary migration. Examining migration mechanisms over these two decades there can be noticed interference in the volume of migrants.

Population mobility lead to significant changes, demographic, economic and social, both in migrants' countries of origin and in the destination. In their study of Kerala State, Zachariah *et al.* (2001, pp. 43-70) have identified several consequences of emigration, considering that migration has an overwhelming influence on them. Migration, they say, had a direct effect on the population balance that declined since 1950. Normally, says Coleman (2008), to a low mortality fertility of 2.04 is regarded as a "replacement level" ignoring migration. Migration can reduce the effective reproduction of a country, or at least can contribute to accelerating the pace of population reduction. This is because emigrants are generally in the reproductive age. Migration contributed to a decreasing of working age population and increased the proportion of children and elderly. Emigration reduce population that immigrants leave behind, or at least moderate population growth that would otherwise be higher. Immigration and emigration can interact with each other, but also with the birth and death rates.

In their study over Romania, Muntele and Iatu (2008) noted that the decline in the birth rate was much higher in municipalities where, in the 2002 census, the number of people missing was higher. They also noted that these municipalities were characterized by high population growth at the beginning of the study period, 1990. The consequences of emigration appear to be more pronounced under conditions of strong demographic pressures there where migration is a less new phenomenon demographic decline is felt for a longer time.

Social renewal rate introduced by Hyrenius (1951) recognizes that birth and including natural population balance are influenced by migration. Looking at the maps we observe a strong correlation between migration and natural balance. Regarding migration balance, the south is characterized by emphasizing Bucharest, showing some superiority to all counties and this thanks to a significant immigration in the 90s, originally released on immigration repatriation flows.

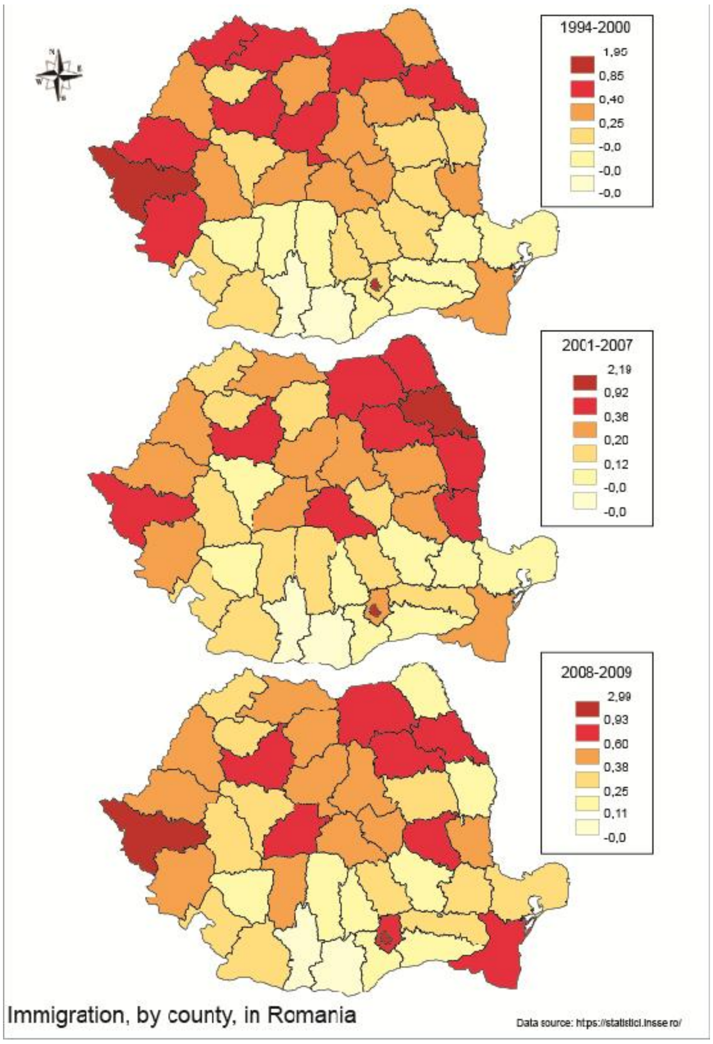
Figure 3 - Migratory balance, by county, in Romania



Source: National Institute of Statistics

Bucharest manifests as a pole of attraction and is visible that most neighboring counties are inferior in this regard. Iasi County also counts, this being the second pole of attraction, but probably due to its proximity to the Republic of Moldova. In recent years immigration register a slight increase in the country, the main provider of population being Moldova, China and Turkey. Perhaps in the future this immigration will be seen as a bailout of an aging population, aging attributed to a negative natural growth and migration of youth to more developed countries.

Figure 4 - Immigration, by county, in Romania

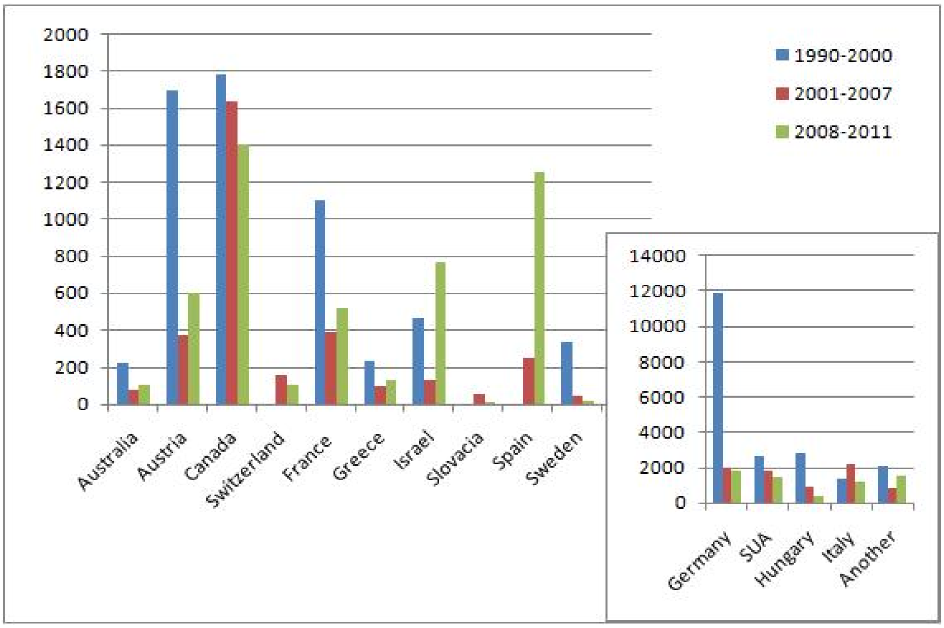


Source: National Institute of Statistics

Although in recent years the number of immigrants increased, it is important to note that emigration was and remains higher than immigration. Regarding Romanian destinations, they seem to be attracted by the lure of the West, where they hope to build a better life or at least get enough money to build that future in their own country.

Germany holds the leading place in this respect followed by distance of United States, Hungary and Italy, which we all know is a destination that is part of the priority areas for migrating where Romanians are looking for a job.

Figure 5 - Destination countries for Romanian emigrants

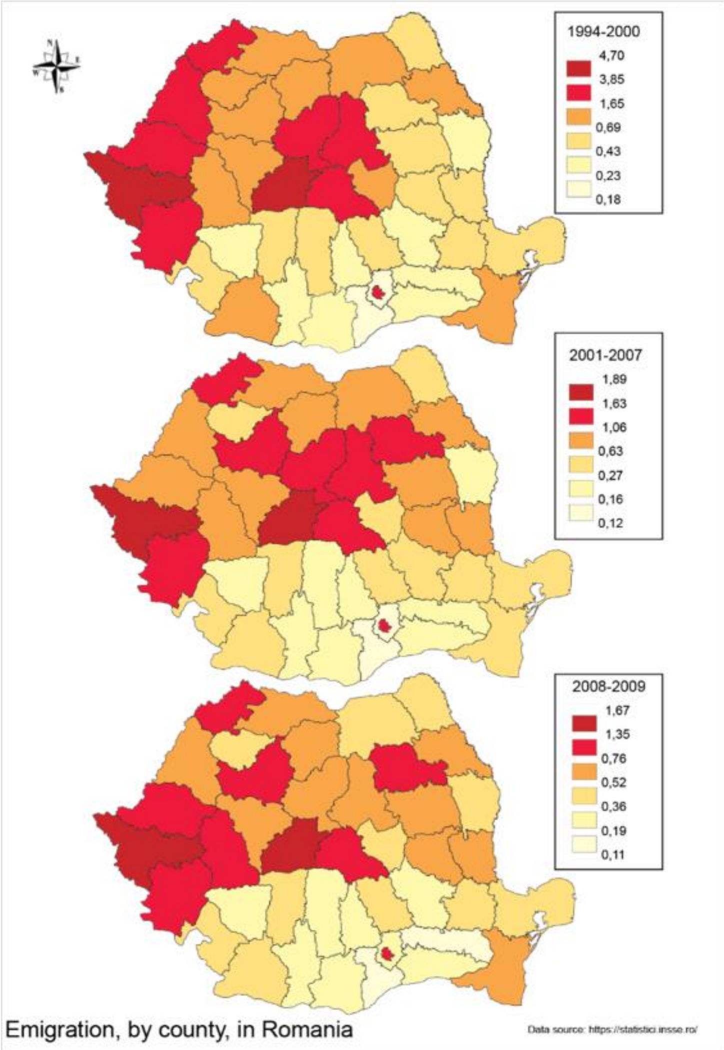


Source: National Institute of Statistics

Sibiu and Timis counties are characterized by the most representative Romanian emigration, but are followed by close of other counties such as Cluj, Brasov, Mures, Bacau, etc. Of course these are not the most worrying situation because significant benefits from immigration which creates a slightly positive balance. In addition to this there is the advantage of being universities poles which attract young population. A particular problem is the southern counties, which were practically drained of young population.

Young people are more flexible on moving than older people, and through these preferences for young people, migration affects the age structure of Romania and even more importantly affect age groups with high rates of fertility, thus reducing the potential for birth rate in Romania, even more when emigration is permanent (Roman and Voicu, 2010). Analysis of statistical data about emigrants show that more than 50% of those who left to work abroad are young people aged up to 40 years. By this emigration of young population, Romanian population enters an accelerated process of demographic aging. The impact of this will be felt especially in the labor market, as decreasing of young people increases the pressure on the population remaining assets to support the elderly, and social service systems, the elderly with special care needs. Thus migration of young population leads in time to serious problems concerning economy.

Figure 6 - Emigration, by county, in Romania



Source: National Institute of Statistics

Conclusions

This paper highlights Romania's situation in terms of relations between demographic transition and international migration, highlighting the metamorphoses post-communist and the increasing risks of economic bottlenecks while the active population is decreasing. Demographic transition together with labor emigration lead to a emergence of problems in the economy, in long term Romania having to suffer.

In the first part, were highlighted the population deviations with a steadily declining birth rate leading to evidence of a negative natural population balance and long-term damage of young labor force. The second part brought to the fore international migration as a complex causality, as a determinant of the rate of change and the composition of the population of Romania. Demographic aging, defined by increasing elderly population exceeding numeric young population, is the most visible result of the low birth rate and emigration of younger people. Demographic decline should therefore not be regarded as an independent consequence, but must take into account that all these changes in the composition of the population are inevitable leading to a long term increase of economic issues. In fact, these problems are visible from any point you look and reflects not only on the young segment of the population as also on those from the age group 40-50 years who have a qualification (electricians, weaver etc.) but business closure or restructuring of positions have led to retrain either to other jobs in urban areas, others returned to the countryside, or choose to go to other countries.

This paper provides a clear picture of the situation in Romania under a metamorphosis attributed to migration boom whose consequences appear very soon. The intention was not only to describe a situation, but the goal has been to highlight the causes, how it came to this point and providing a visual image of the situation by using cartography.

Acknowledgements

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THE AFTERMATH OF THE ECONOMIC CRISIS: HEALTHCARE SYSTEMS' INEQUALITIES IN EUROPE

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Sebastian ENEA**

Abstract: *During an economic downturn the non-productive sectors (education, health, and social services) are the most exposed to sudden policy changes, as a result of austerity measures. This article aims to assess the impact of the late 2000's crisis on some European countries' healthcare systems in order to highlight the link between the breakdown of the economic context and the negative outcomes on a social level. In this regard, a panel data analysis was employed, focusing on out-of-pocket health expenses as an estimation of a nation's wellbeing and healthcare development level. The cross-time results indicated a clear collapse of all national healthcare systems in 2009 while the cross-section effects implied that the twenty three countries could be divided in three groups according to their healthcare policy, especially regarding health insurance. Thus, countries should pay more attention to the private insurances component of the healthcare systems as the others are defenseless against business cycle fluctuations.*

Keywords: economic crisis; healthcare; out-of-pocket payments; social inequalities; panel data
JEL Classification: C23; I13; I14

Introduction

The recent economic events have showed that, during times of crisis, health outcomes become more and more vulnerable. National welfare, described on the basis of socio-economic relations, is affected by the increased scarcity of the financial resources, thus widening social inequalities and decreasing the general living standard.

The government's response in times of crisis is to make cuts in the expenditures of non-productive public sectors, such as health and education, in order to counter-balance the effects of the economic downturn. The global crisis that started in 2007 was considered to be "a health system shock – to be more exact, an unexpected occurrence originating outside the health system that has a large negative effect on the availability of health care resources" (Mladovsky *et al*., 2012). However, the link between the crisis and the national health care system has not been fully addressed.

The connection between the two is rather an indirect one. If one would take into account the fact that crisis represent periods of income losses for households, then it can be stated that this represents a very dangerous situation where health does not represent a priority, individuals focusing

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more on daily expenditures. Moreover, as the international economy presents a cyclical evolution and the economic crisis represents the troughs of the business cycle, one is inclined to think that healthcare outcomes experiencing a pro-cyclical behavior.

Following the idea stressed out by the World Health Organization (WHO) concerning the need for a “systematic cross-country analysis” (Mladovsky *et al.*, 2012) as regards to the healthcare systems’ reactions to the economic crisis, the present paper aims to emphasize the effects of the late 2000’s financial crisis on the national healthcare systems, in order to measure the social impact of the economic downturn.

The importance of the study resides in the fact it analyzes the negative indirect effects of the economic downturn on health care systems by highlighting the structural differences between the considered countries. What is more, it constructs a time line for health care related measures, in accordance with the international economic dynamics. Overall, the research represents one of the few empirical studies that have addressed the issues of health care expenses, before and during the crisis, in Europe.

The remaining part of the article is structured as follows. Section 2 presents the most important opinions and ideas regarding the issues of health care expenses and out-of-pocket payments, as depicted by the international literature, section 3 comprises the sample and the data description, as well as the methods employed in the analysis, while section 4 highlights the result of the empirical approach. The last section presents the authors’ conclusions, the limitations of the research and the future study directions.

1. Literature review

In the new global economy, healthcare and its related cost have been considered important research topics by numerous studies in the international literature.

The approach regarding healthcare costs should start from the Liberal – Keynesian dispute regarding the government’s intervention. If the Keynesian doctrine promoted the active participation of the state and the provision of goods and services to the people was considered to be a mean of ensuring social welfare, the liberalism and neo-liberalism approach are towards a minimalist state (Horton, 2007). Given the fact that the healthcare system represents a social service, the question that comes to mind is what approach should the governments have towards it, either an active or passive, minimalistic one.

An important issue that is addressed by the literature concerns the effects of supranational structures' decisions and actions as regards to national healthcare systems. Stuckler and Basu, (2009, p. 773) consider that "IMF programs have been significantly associated with weakened health care systems, reduced effectiveness of health-focused development aid, and impeded efforts to control tobacco, infectious diseases, and child and maternal mortality". Moreover, short-term cuts of public expenditures, especially in times of economic crisis, can be performed in the health care system, thus leading to negative effects such as emigration of qualified personnel, reduction of disease testing (Stuckler and Basu, 2009), as well as additional cost for patients, paid out of the pocket.

A central concept introduced by the literature is that of out-of-pocket payments, considered as those expenses which an individual accepts to pay additionally for health care services. OOP payments represent a very important financing method for health care services, especially in developing regions such as Asia (O'Donnell *et al.*, 2008).

Regarding the classification of the OOP, Gottret (2006, p. 232) divides the costs into direct and indirect costs. The indirect costs such as food, accommodation, transport for the patient and family are more difficult to cover, but user fees either regulated or "under the table" could be attended through insurance coverage or provided by the national health system.

Out-of-pocket payments are considered by the international literature to be a threat to the living standards (Van Doorslaer *et al.*, 2005). This situation is analyzed in connection with the level of unpredictability for OOP payments, as well as their impact on household incomes. An extensive part of the literature focuses on this link between the income and OOP payments and underlines the idea of catastrophic payments, defined as those expenditures in excess of a substantial fraction of the household budget (Berki 1986; Wyszewianski 1986; Pradhan and Prescott 2002; Wagstaff and Van Doorslaer 2003; Russell 2004; as cited in Van Doorslaer *et al*., 2005), thus considered to have an poverty impact on the household.

Related to the situation presented above, numerous studies have found it important to address the issue of health care expenses, particularly out-of-pocket payments, before and during economic crisis. Most of the researches conducted focused on the problem either from a national point of view (Cutler *et al*., 2002; Belli *et al*., 2004; Cavagnero and Bilger, 2010; Svensson, 2010), or from a regional perspective (Van Doorslaer *et al*., 2005; Mladovsky *et al*., 2012). All of them reached nearly the same conclusion, namely the fact that between economic crisis and health outcomes there is a pro-cyclical relationship. To be more specific, during periods of economic crisis the public health systems usually tends to suffers financial cuts, which in turn means that individuals are required to spend more for health services.

As regards to the idea that health care expenditures are connected with the national or regional business cycle, the international literature shows a gap in terms of studies that have statically analyzed OOP payments, as part of the total health care costs, before and after economic crisis in Europe. That is why the present study wishes to address this situation by aiming to emphasize the effects of the economic crisis on health care expenses.

The research hypotheses we propose in this study are the following:

H_1: The healthcare systems' evolutions are pro-cyclical in relation to the business cycle, thus making healthcare systems vulnerable to economic recessions.

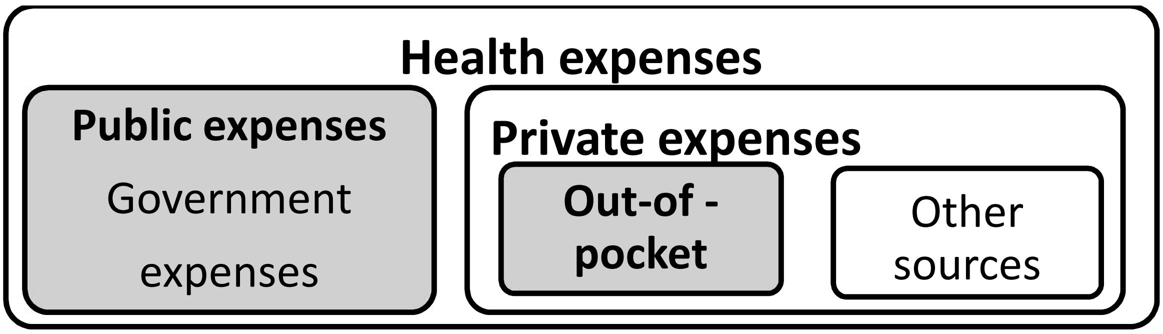
H_2: There is an inversely proportional connection between the OOP and the private healthcare insurance.

H_3: There are significant differences among European countries as regards to their healthcare systems' ability to manage during an economic downturn.

The last hypothesis evolved from the opinions of Pavolini and Guillén (2013), who underlined the fact that among the countries that have a Beveridge health care system there are structural differences which lead to divergent outcomes in health care provision, a fact also noted by Mladovsky's report (2012) for Europe.

These vulnerabilities arise from the structure of the total expenses on health care, depicted in Figure 1. While the total need for healthcare expenditure grows, the amount of financing provided by the state tends to remain constant or even diminish during downturn periods. The necessary funding for covering the remaining healthcare expenses comes from private sources, which are either insurances or OOP. As in some countries from the selected sample, private insurances have only a marginal role, OOP remaining the primary healthcare financing method. The trade-off between these two components of the private sector will be studied in depth by hypothesis.

Figure 1 - Health care expenses



Source: authors' personal perspective

2. Empirical approach

2.1. Data

We have selected a sample of 23 European countries, excluding from our study those which have highly competitive social protection systems, based upon a Bismark-type social insurance model, such as Norway, Sweden, and Germany, focusing mainly on eastern and central European countries, together with some western states which are known to have been severely affected by the crisis of the late 2000's like Spain, Portugal and Ireland. A list of the selected countries can be found in Table 6. These countries have mainly Beveridge-type healthcare models funded by national revenue, thus are more prone to budget cuts during a crisis.

The time span of the analysis covers 5 years, between 2007 and 2011, hence including, 2 peaks (2008 Q1; 2011 Q3) and one through (2009 Q2) according to the European Business Cycle Dating Committee, thus being relevant for highlighting the effects of the crisis on the healthcare systems by offering a comparison among the measures taken in the pre-crisis period, and the consequences of the austerity procedures following the general economic downturn.

Since the study aims to emphasize the effects of the economic crisis on healthcare expenses, we have chosen public and private health expenses as relevant variables, as suggested by Figure 1, focusing on out of the pocket expenses, which the international literature considers to be a measure of economic development and national welfare.

In line with previous literature findings, we measure the occurrence of the economic crisis via the classical aggregate indicator GDP (annual growth rate). Table 1 synthesizes the selected variables as well as the data source from where these were retrieved. The code represents the name of the variable as it is given by the World Bank and can be used to download data in order to replicate the findings.

Table 1 - Variables and data source

Variable	Index	Data code
GDP per capita growth (annual %)	GDP_t^i	World Bank (NY.GDP.PCAP.KD.ZG)
Public (governmental) health expenditure (% of total expenditure on health)	GOV_t^i	World Bank (SH.XPD.PUBL)
Out-of-pocket health expenditure (% of total expenditure on health)	OOP_t^i	World Bank (SH.XPD.OOPC.TO.ZS)
Out-of-pocket health expenditure (% of private expenditure on health)	$OOPpriv_t^i$	
Other private sources (insurances, funds)	$PRIV_t^i$	

Source: World Bank, World Health Organization databases and own computation

In the context of the present study, these variables have the following meanings:

▪***OOP* –** Out of pocket expenditure is any direct outlay by households, including gratuities and in-kind payments, to health practitioners and suppliers of pharmaceuticals, therapeutic appliances, and other goods and services whose primary intent is to contribute to the restoration or enhancement of the health status of individuals or population groups. It is a part of private health expenditure (World Bank, n.d.).

▪***GDP* –** Annual percentage growth rate of GDP per capita based on constant local currency. Aggregates are based on constant 2005 U.S. dollars. GDP per capita is gross domestic product divided by midyear population (World Bank, n.d.).

▪***GOV* –** Public health expenditure consists of recurrent and capital spending from government (central and local) budgets, external borrowings and grants (including donations from international agencies and nongovernmental organizations), and social (or compulsory) health insurance funds. Total health expenditure is the sum of public and private health expenditure. It covers the provision of health services (preventive and curative), family planning activities, nutrition activities, and emergency aid designated for health but does not include provision of water and sanitation (World Bank, n.d.).

▪***PRIV*** – the value of private expenditures on health care services, including medical insurances, but excluding OOP. The values for other private sources were computed by the formula

$$PRIV_t^i = 100 - OOPpriv_t^i$$

An overview of the descriptive statistics of the variables included in the study can be consulted in Table 2.

While the public expenses are dictated by the executive authorities and can be directly influenced by austerity measures, the private expenditures on health are subject to a complex array of factors, which are in our opinion the country's degree of development, the purchasing power, the expectations of the inhabitants, their education level, and the self-awareness on health and wellness.

In this regard, the out of the pocket expenses (% total health expenses) become an important index for assessing the effects of the economic downturn on the wellbeing and health status of the European citizens.

Table 2 - Descriptive statistics

Variable	**Minimum**	**Maximum**	**Mean**	**Std. Deviation**	**Variable**	**Minimum**	**Maximum**	**Mean**	**Std. Deviation**
GDP_07	.270	10.55	5.55	3.00	OOP_07	12.44	47.78	26.96	10.43
GDP_08	-4.08	8.09	2.19	3.61	OOP_08	12.13	49.70	26.83	10.44
GDP_09	-17.5	1.53	-6.75	4.61	OOP_09	12.33	49.45	26.91	10.94
GDP_10	-5.15	9.51	1.59	2.9	OOP_10	12.94	49.37	27.87	11.08
GDP_11	-7.04	18.69	3.67	5.77	OOP_11	12.95	49.38	28.42	11.39
GDP_total (2007-2011)	-17.5	18.68	1.25	5.87	OOP_total (2007-2011)	12.13	49.69	27.40	10.60
GOV_07	42.59	87.03	68.01	10.99	PRIV_07	0.76	53.05	15.72	12.61
GOV_08	41.36	84.87	68.38	10.73	PRIV_08	0.79	53.55	15.32	12.63
GOV_09	43.44	84.89	67.85	10.62	PRIV_09	0.88	53.75	16.23	14.26
GOV_10	43.28	84.80	67.04	11.04	PRIV_10	0.88	52.39	15.59	14.25
GOV_11	43.27	84.73	66.52	11.32	PRIV_11	0.88	52.39	15.57	14.25
GOV_total	41.36	87.03	67.56	10.76	PRIV_total	0.76	53.75	5.68	13.38

Source: own computation in Eviews 7

2.2 Methods

This study employs panel data analysis in order to identify the countries which have suffered important structural changes in health expenses and afterwards to empirically measure the extent of the changes due to the late 2000's crisis.

Panel data analysis can be considered a bi-dimensional extension of the regression analysis, including both a time and a cross-sectional component, which can be subject to fixed or random effects.

The validation of a certain model requires the completion of the following steps:

1. Stationarity check of the time series used in the model (to determine the possibility of co-integration);
2. Panel co-integration tests (if necessary, as stated by step 1);
3. Panel data analysis with fixed/random effects

As Hsiao (1985, 1986) and Baltagi (1995) argued, panel data reduces the risks of obtaining biased results and provides a large number of data points (observations) to increase the degrees of freedom, thus providing dynamic adjustment.

2.2.1. Fixed effects method

The fixed effects method treats the constant as belonging to a certain group, providing the equation for fixed effect method as:

$$y_{i,t} = \alpha + \beta x_{i,t} + \mu_i + \nu_{i,t}$$

where, μ_i is the individual specific effect and $\nu_{i,t}$ stands for the 'remainder disturbance'.

2.2.2. Random effects method

The Random effects method employs ε_i which measures the random deviation of each entity's intercept term from the 'global' intercept term α. We can write the random effects panel model as

$$y_{i,t} = \alpha + \beta x_{i,t} + \omega_{i,t}$$

where $\omega_{i,t} = \varepsilon_i + \nu_{i,t}$

2.2.3. Hausman Specification Test

This test compares the fixed versus random effects under the null hypothesis that the individual effects are uncorrelated with the other regressors in the model (Hausman 1978).

The advantage of the proposed method resides in the fact that it allows the testing of all three hypotheses using the same equation.

$$OOP_t^i = c + \alpha_1 GDP_t^i + \alpha_2 GOV_t^i + \alpha_3 PRIV_t^i + \mu_i + \mu_t + \nu_t^i$$

The first hypothesis is confirmed if there is a sign change of the time component μ_t when the phase of the business cycle shifts (presumably in 2008 or 2009). A positive estimation of this variable could indicate an increase in OOP.

H2 can be considered confirmed if the sign of the α_3 estimator is negative, proving an inverse relation between the private insurance and OOP and the last hypothesis is true if the range of the cross-sectional index, μ_i, is wide, showing significant differences among the sample.

3. Results and discussions

3.1. Panel data analysis

The results of the Philips-Perron unit root test are presented in Table **3**3 and show that the unit root hypothesis can be rejected, thus the series are stationary. Because they are stationary in level, there is no need for co-integration.

Table 3 - Stationarity check-unit root PP test

Variable	PP panel unit root test result p-values
GDP_t^i	123.32 (0.0000)***
GDP_t^i GOV_t^i	123.074 (0.0000)***
GOV_t^i OOP_t^i	176.35 (0.0000)***
OOP_t^i $PRIV_t^i$	82.15 (0.0000)***
p-values are in parentheses.*** shows significance at 1%.	

Source: own computation in Eviews 7

We further proceed to the estimation of the parameters and their significance for each of the proposed models by resorting to Ordinary Least Squares (OLS).

The selection of the right model is done using the Hausman test, which compares a more efficient random model to a less efficient but consistent fixed effects model to ensure that the stochastic model is consistent.

Table 4 - Panel analysis parameter estimates

Variable	Fixed/Fixed	Fixed(country) Random (year)	Random(country) Fixed (year)	Random/Random
GDP_t^i	0.03 (0.0038)	0.01 (0.0255)	0.03 (0.0028)	0.01 (0.0244)
GDP_t^i GOV_t^i	-0.82 (0.0000)	-0.83 (0.0000)	-0.86 (0.0000)	-0.8665 (0.0000)
GOV_t^i $PRIV_t^i$	-0.38 (0.0000)	-0.238 (0.0000)	-0.31 (0.0000)	0.31 (0.0000)
C	88.95 (0.0000)	89.03 (0.0000)	90.73 (0.0000)	90.83 (0.0000)
R^2	**0.99**	0.99	**0.97**	0.97
Idiosync.random		0.39	0.39	0.39
Cross-sec. Random		-------------------	0.71	0.71
Period random		0.00		0.00

Source: own computation in Eviews 7

Table 4 indicates that the fixed/fixed model is the most appropriate, which implies that the economic conditions are particularly different for each year and each country, leading to different outcomes of the studied variable, hence we can proceed to writing the estimated equation.

Table 5 - Hausman test result

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	31.910742	3	0.0000

Source: own computation in Eviews 7

$$OOP_t^i = c + \alpha_1 GDP_t^i + \alpha_2 GOV_t^i + \alpha_3 PRIV_t^i + \mu_i + \mu_t + \nu_t^i$$

which becomes

$$OOP_t^i = 88.95 + 0.03GDP_t^i - 0.82GOV_t^i - 0.38PRIV_t^i + \mu_i + \mu_t + \nu_t^i$$

Given the purpose of the study, it is mandatory to address the significance of term in the equations above. Thus we have:

▪*Constant* – 88.95% represents the amount of out-of-pocket expenses, perceived as percentages of the total health expenses, which could be paid if the other factors were disregarded (equal to 0). This is a hypothetical scenario due to the fact that the government will have at least a partial contribution to the health in some states, as declared by constitution. For example, if we consider that the average of the minimum contribution of the government is 41.36%, which corresponds to the average value of government contribution in 2008, replaced in the proposed equation, it follows that the real value of the constant is around 88.95-0.82×41.36=55.03%. If we take into consideration also the minimum value of the private insurances which is 0.76%, this constant drops even further, namely to 55.03-0.76×0.38=54.74% 41.36% and the minimum private insurance is 0.76, hence the new constant is 54.75. Thus, it can be said that if the contributions to the health care system, public and private, register the lowest values, the individuals would have to pay more than half of the total health care expenditures.

▪*GDP* – the influence of the GDP is a direct positive one, which is in line with previous studies in the literature (as the level of economic development rises, people increase their living standards and are more willing to pay out-of the pocket for healthcare services). Furthermore, the GDP acts indirectly because the positive economic environment sets the stage for negotiation regarding the government's contributions. The coefficient is positive but small (0.03) which means that for an increase of 1% in the GDP, the OOP expenses will tend to rise, in average, with 0.03%. The influence of the GDP is also indirect due to the fact that during economic expansions governments tend to allocate more funds to social expenses, such as education, healthcare, pensions, etc.

▪*GOV* – This represents a very important indicator because any changes in the expenditures should take into account the potential impact they have on the health care system in general (Mladovsky *et al*., 2012), as in most countries the medical sector relies heavily on public financing sources. The equation proves that this is the most important factor, as a decrease of 1% change in the public expenses triggers an increase of 0.82% in the OOP expenses.

▪*PRIV* – In general, the private sector has a minimal role in health care expenditures across OECD, but it has the advantage of covering a wide area of financing methods, from primary converge for individuals to supporting national medical systems (Tapay *et al*., 2004). The sample is very heterogeneous regarding this variable, ranging from below 1% to over 50%, thus the influence is country-specific. In average, an increase of 1% of the private insurances, as percentage of the total private spending, will decrease the OOP by 0.38%, hence proving that preventive health spending is preferable to OOP spending which can be disastrous for household budgets, especially on the short term, usually associated with major hospital interventions which are not avoidable (accidents, cancer, etc.)

Table 6 - Country fixed effects

OOP positive countries			**OOP negative countries**			**OOP neutral countries**		
Country	Index		Country	Index		Country	Index	
Bulgaria	BGR	0.75	Croatia	HRV	-3.15	Greece	GRC	0.15
Cyprus	CYP	0.80	Czech R.	CZE	-1.75	Hungary	HUN	0.40
Finland	FIN	1.02	Estonia	EST	-1.89	Latvia	LVA	-0.50
Ireland	IRL	3.44	Italy	ITA	-0.68	Macedonia	MKD	-0.38
Spain	ESP	0.98	Lithuania	LTU	-1.70	Moldova	MDA	0.13
Slovenia	SVN	4.10	Romania	ROU	-3.03	Poland	POL	-0.01
Ukraine	UKR	0.63				Portugal	PRT	0.34
						Russian F.	RUS	0.08
						Serbia	SRB	0.01
						Slovak R.	SVK	0.27

Source: own computation in Eviews 7

▪μ_i – represents the cross-section effect, and its display three value categories.

A first group (the OOP positive) comprises the positive values ([0.62,4.09]) and is characteristic for the countries where people show more willingness to pay out of the pocket for health services, like Slovenia, Ireland, Finland and Spain (Pavolini and Guillén, 2013), or have no option but to pay like in Cyprus, Bulgaria and Ukraine (Miller, Grødeland, and Koshechkina, 2000).

The first four countries have recorded higher OOP due to the fact that, since 2009 they have enacted more user charges for health services, some of which are partially reimbursable by private health insurance systems, if the amount exceeds a certain threshold. This can be considered OOP, because the money has to be paid first by the user, who afterwards can reclaim a portion the amount spent and usually receive it during the next year (Folino-Gallo *et al*., 2008). Also, these states have imposed increased compulsory insurance to help government spending and have taken secondary measures such as raised medical awareness regarding medicine use by educational trainings and e-health implementations. These actions make people more aware of their health status and more willing to spend extra money on their health and wellbeing.

The last three states from this group either lack a public health care insurance program (Ukraine, Cyprus), or this is a weak one (Bulgaria) and their response to the crisis was to reduce public spending on health, to diminish the number of public healthcare facilities (hospitals, dispensaries), the only valid leverage being to increase taxation on alcohol and tobacco.

The negative values category [-3.15, -.0.38] engulfs Croatia, Romania, Estonia, the Czech Republic, Lithuania, Italy and Macedonia, thus including countries that cannot increase their OOP due to limited resources. Therefore, this group will be called OOP negative. As concerns the healthcare system, inhabitants rely mostly on government support because the countries either are deficient in or have expensive private health care insurances. In the context of the 2009 crisis, these nations have been subject to important budget cuts (de Belvis *et al*., 2012), doubled by the introduction of co-payment for the patients, which resulted in increased OOP and social inequality. Other austerity measures common for these states were to postpone the development of healthcare facilities and the increase of public insurance contributions together with user charges. These countries are fairly reluctant to extensive OOP and the economic crisis was the trigger of a downward spiral effect amplified by increased taxes, unemployment rates growth and the incapacity to sustain a health-conscious living style.

The neutral values [-0.49, 0.39] are recorded mostly for the countries that have implemented measures in order to harness the negative effects of the crisis on healthcare with a minimum impact on OOP. These include Hungary, Portugal, the Slovak Republic, Greece, Moldavia, the Russian Federation and Serbia as positive OOP countries and Poland, Macedonia and Latvia as OOP reluctant countries. The common feature of these nations is that they use a mix of the previously mentioned policies, such as reducing investments, cutting research and development expenses, implementing heath awareness programmes, imposing more taxes on the employers and using social safety nets to prevent a rise of the OOP.

The positive and negative OOP countries display somewhat of a paradox, namely, on the one hand, the fact that in OOP positive countries people are willing to pay more for health care services but have no reason to do so since their expenses are covered by healthcare programmes or private insurances and, on the other hand, in OOP negative countries individuals do not wish to pay additional sums, but they are obliged to conform in order to have access to medical facilities, a situation in line with the previous literature (Cutler *et al.*, 2002; Belli *et al.*, 2004).

The wide array of values and the possibility to group them accordingly is a confirmation of H_3

- μ_t – represents the time effect and it shows the annual values for the OOP payments. Negative values represent moments when the national economic situation was good, meaning that people did not need to pay more to health services. The opposing situation, starting from 2009, comprises the positive values for μ_t and underlines the fact that the anti-crisis methods enacted at national levels meant additional expenditures for individuals, as regards to healthcare.

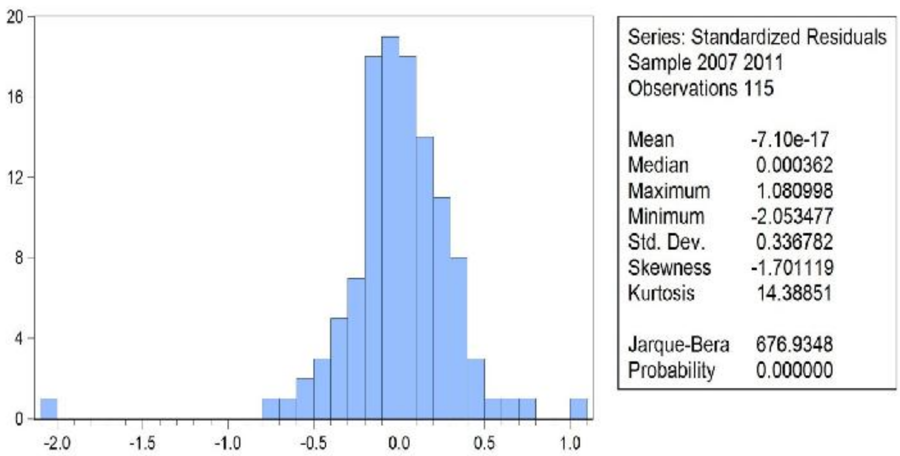
This situation can be better understood if we look closely at the values for 2007 and 2009, where we can see a difference of 0.39, signifying an increase in OOP payments, thus highlighting the negative effects of the current economic crisis on the health care system and confirming H_1.

Table 7 - Year fixed effects

Year	[illegible]
2007	-0.191179
2008	-0.068577
2009	0.209586
2010	0.000614
2011	0.049556

Source: own computation in Eviews 7

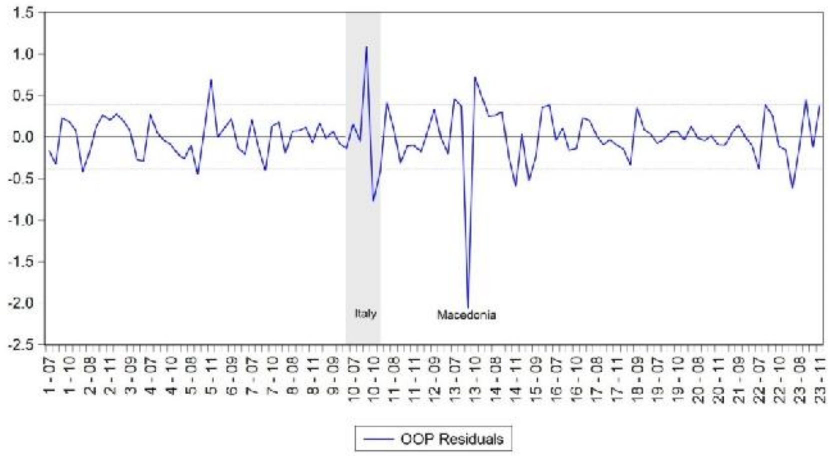
Figure 2 - Residuals' distribution



Source: own computation in Eviews 7

▪ν_t^i – defines the residuals of the model or the combined cross-time/cross-section effect. The residuals are generally small, have a normal distribution, as can be inferred from Figure 2. This proves that the model is statistically significant and that the deviations from the proposed equation do not have a magnitude that could mean that another model would be more appropriate. The only outliers are for Macedonia in 2009 (-5.84% GDP growth) and for Italy in 2009 (-4.15% GDP growth) and 2010 (+4.83% GDP growth), as seen in Figure 3.

Figure 3 - Residuals of the model



Source: own computation in Eviews 7

Conclusions

This study has set out to emphasize the effects of the late 2000's financial crisis on the national healthcare systems of 23 European countries, in order to measure the social impact of the economic downturn.

The welfare status of each nation was approximated by the amount of out of the pocket payments for healthcare services and the variation thereof served as an indicator of structural changes which followed political decisions as responses to the crisis situation.

The empirical approach via panel analysis made it possible to highlight both the time effects, out of which the moment 2009 is most relevant for the study as the trough of the business cycle, and the cross-sectional effect which stressed out the strengths and most importantly the weaknesses of national healthcare systems.

The findings imply a strong pro-cyclical behaviour of the healthcare systems, as most countries in the research sample rely heavily on public expenditures, thus are vulnerable to business cycle fluctuations, thus confirming the first hypothesis of our study.

Secondly, it can be inferred that private insurances reduce drastically the OOP, validating the second hypothesis, thus should be taken into consideration on a larger scale, especially in countries which lack a public healthcare system or in those where the economic fluctuations have weakened the health budget.

Although this shift of healthcare policy towards the increased importance of private insurance could mean an increase of an individual's or a family's expenses on healthcare on the short term, especially at the beginning when there are not many participants to this kind of risk avoidance, the benefits of such a change should be considered on the long term. As more and more people join the private insurance scheme, the risk is pooled, thus divided between the users of such a system. Under these circumstances, the paid insurance prime will decrease consistently over time, as the healthcare conditions improve due to more resources available. In this situation, if we compare the expenses of the private insurance and the potential catastrophic OOP, it becomes clear that the private insurance component should be considered a reasonable alternative to both OOP and government expenditure.

The present study has proved that the private insurance component can help divide the studied sample in three groups, according to their policy regarding private healthcare and highlighting the differences as stated by the last hypothesis of our study. The countries with affordable private insurances are also those where people are more aware of their living standard and welfare, while in countries where the insurances are not an important component, their role is taken up by OOP.

In the context of economic crisis, the already shrinking incomes are redistributed from healthcare to more urgent needs such as food, thus the population living in countries with high OOP levels is faced with the pessimistic option to abandon healthcare in favour of day to day living, triggering a damaging spiral effect which includes sickness, inability to work, unemployment and in some extreme cases suicide.

The contribution of this endeavour to the existing literature is related to the empirical approach used to study the healthcare systems in Europe. The quantitative findings validate the previously existing qualitative discussions regarding the negative impact of the crisis.

Moreover, it puts forward some policy implications regarding the necessity to increase the importance of the healthcare insurance. The public component should help create during economic expansions a safety fund which could be uses in recessions and the private component could help decrease OOP and avoid catastrophic payments.

The limitations of the present undertaking are mainly related to the number of countries and the time-span, thus further studies could include an extensive analysis of countries from Europe, Asia, the Americas as well as other past crises for a comparison. The division of the sample countries into 2 distinct behaviour groups also suggests a cluster approach of the problem and the 3rd mixed policies group implies that a fuzzy cluster would be most appropriate.

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ECONOMIC IMPLICATIONS OF CHURCHES IN THE DEVELOPMENT OF HUMAN SETTLEMETS. STUDY CASE: IASI CITY

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Abstract: *It is not wrong said that monasteries and churches were one of the elements that led to the development of human settlements in Iasi, especially the city of Iasi. Most churches/monasteries from the feudal period, received from princes / noblemen vast areas of land in order to develop economically, so buildings can survive in time, but also the administrators. Gradually, this lands got to be populated by those who worked and eventually they built houses to live closer to the land they worked on. Subsequently, these small settlements led to the formation of rural settlements and with time they gained an urban character. Today, we have reached the stage where these religious buildings have grown importance in the development of tourism, attracting tourists from around the country and abroad.*

Keywords: churches; human settlements; development; Iasi
JEL Classification: N93; N94

Introduction

We tend to label buildings like mosques, synagogues and churches as sacred, while villages, suburbs, employment places by the definition of secular spaces. Contemporary research has considered many issues such as religious adherent's mobility on pilgrimage and tourist heritage, sacred dimensions of domestic space, iconography and symbolism of religious spaces, sacralization of nature, the contribution of religion in the workplace and the economy, geopolitical dimension of religion, mediation of national and ethnic religious entities, postcolonial perspectives of religion (Brace, Bailey, Harvey, 2006).

In the urban context, sacred and secular varieties go hand in hand. Theories of urban space and society take into account how social constructions religious overlap, complement or conflict with secular locations, but with other religious and social constructions. It is necessary to identify the link between church and human settlements, the church being a fulcrum for the development of towns and villages. As we will see in this paper, churches/monasteries were the basis for the development of villages in the city of Iasi, as they subsequently become an integral part of the city, these are actual neighbourhoods. Identifying this link will help understanding the evolution of Iasi, this perspective is one less exploited.

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1. Research Issues

This research considers space analysis, faith and religion. In order to understand the layout of settlements and the sense of space and society, it is essential to know religious practices, both institutionally and in terms of personal experiences. It is important for the spiritual life of society and the building and reconstruction of that society.

The purpose of this paper is to observe the dynamics of settlements regarding the evolution of Iasi county, especially the city of Iasi and what impact did monasteries and churches have on the development of these settlements and the influence they have on the present day in tourism.

2. Literature review

The most relevant studies are those that consider space as a point of contact, exchange and conflict between religion and culture. Such spaces cannot be seen just as sacred or profane, but also as a reflection or reproduction of religious and social aspirations. A culture cannot be understood without understanding firstly the implicated connections and their development, regarding the religious beliefs and practices. It is vital to understand the historical constitution of religious identities in space (Weidenfeld, 2006).

In the urban context, sacred, secular and sacred varieties go hand in hand. Theories of urban space and society takes in consideration the way how religious social constructions overlap, complement or enters in conflict with secular sites, but also with other religious social constructions.

Mircea Eliade believes that the man who belongs to a traditional society can only live in an area which offers access "to high" and whatever the space that he chooses to live he feels the need to live in an organized world. Thus, like the universe has developed from a central point, the most settlements were established at a crossroad. Given this, in the centre of the settlement r a portion of the territory was left, so it could be constructed a house of worship / church. People lived with the idea that human settlements amounted to the foundation of a world and assume its creation. Assume responsibility to preserve and renew. It can be said that the settlement represented the universe which man was building it so, feeling closer to divinity, trying to imitate the creative process (Eliade, 2000).

There are a number of researchers that identified construction policies of sacred spaces, and among them we can remember Van der Leeuw. These are:

- Positioning policy, any territory who has a church built on, is another gained territory;

- Property policy, in which any sacred place is held, his sacrality is maintained through claims by the owner;
- Exclusion policy, in which the sanctity of the sacred space is maintained by imposing limits;
- Exile policy, under a form of a loss or nostalgia for the sacred (Kong, 2001).

Besides sacred spaces, we should also take in consideration religious routes. Thus, we can bring into question the pilgrimage routes. They are acquired by local authorities, giving them a commercial side, in addition to the spiritual one, considering this a marketing strategy (Graham, Murray, 1997). An example is the route to Santiago de Compostela in Spain, where a prayer becomes tourist attraction, a ritual is an event for tourism, the difficulty route is seen as a route for adventure tourism, etc. (Kong, 2001).

Michell believes that while sacred places are a result of sacralization processes such as rituals, landscapes are also designed to recreate the sacred world seen by different religious groups (Michell, 1994).

Tourism often has been associated with the pilgrimage. Although religious heritage has attracted millions of people, churches, temples, monasteries and other sacred sites have attracted tourists for various reasons. Pilgrimage depends on several factors such as income, leisure and social rules allowed for travel (Smith, 1989). Others describe tourism as a sacred journey in which the individual escapes from everyday life in another realm (Graburn, 1989).

There are a number of features that describe the phenomenon of religious tourism:

• Tourists are becoming sophisticated in terms of their requirements for travel and are willing to pay more for the experience and facilities.

• Almost all communities around the world want tourism to be developed to achieve an economic boom and communities around sacred places want to take advantage of what tourism offer them.

• Religious organizations and sacred places partner cannot operate separately from each other. Community needs money generated by religious tourism and religious organizations need the support of the community (Brace, Bailey and Harvey, 2006).

However there is a concern regarding the development of tourism marketing of these sacred spaces, considering that it could have a significant socio-cultural and environmental impact to their detriment. It would be required a trusting relationship between civil authorities responsible for tourism and heritage, church authorities and travel agencies (Tilson, 2001).

This type of tourism should come in hand for a new ethical dimension. It is essential that managers propose as a priority the spiritual development and religious support. Tourists face the idea that sacred spaces might become too commercial and that the primary purpose of these locations could be overshadowed by economic issues. A balance between these it is necessary and managers should not become profane through aggressive selling souvenirs, design and excessive promotion of products (Weidenfeld, 2006).

3. Method and Methodology

This work is based on bibliographic study given the history of Iasi, how the city evolved from pre-Cucuteni phase until today, how religious elements contributed to the development / extension of settlements. I analyzed a series of bibliographic resources containing historical research and then synthesizing this information. The methods used were theoretical, descriptive.

4. Relationship between settlements and territory

4.1. The evolution of Iasi city from pre-Cucuteni phase until early feudal period.

Arguably, Iasi was first developed as a rural settlement, knowing some progress by the name of "fair". He noted the presence of traces of civilization in this territory following the discovery of primitive tools of flint split in 1954, on the territory of current antibiotic enterprises, leading to the conclusion that in this area had lived a band of hunters, living now approx. 200 000 b. c. (Bogdan, 1997). It began a series of investigations that led to the discovery of tools from different periods, and remains of animals including the mammoth bones.

Also, were discovered traces of pottery in pre-Cucuteni and Cucuteni phase, reported around the area Palace of Culture, Targul Cucului area, Nicolina and Valea Lupului. Observing the findings it was concluded that their main occupation consists in agriculture, here being found charred wheat grains and bones of domestic animals.

Later, they discovered Bronze Age material or ceramic pots with characteristic paintings, with shaped mound settlements, with activities such as grazing. Such settlements are found in "Ceairul lui Peretz" and "Crucea Armeneasca", near the Galata monastery (Cihodaru and Platon, 1980). The Iron Age is characterized by other findings of pottery near the Frumoasa monastery, areas near the Nicolina stream, Cetatuia, Galata hill. It was also discovered Dacian pottery type inside the Royal Court of the Palace of Culture, Israelite cemetery, Ciurchi, Sorogari etc.

The Dacian Period made its presence felt through the discovery of some tombs, pottery remains, Dacian vessels, ornaments, mirrors, beads, found at Valea Lupului, Tatarasi neighbourhood, Cetatuia hill etc.

The beginning of feudal period had known civilizations like Cumans, Vlachs, Tatars, and the excavations led to discovering sickles, axes, knives, ceramics shaped as jars or ornated bowls, furnace for reducing iron ore, tartar coin silver etc. (Barbu and Ungureanu, 1987).

4.2. Iasi City in feudal period

In this period, predominated constructions with a religious character, only this ones being built of stone, the rest of buildings being built from wood, because the nobles were afraid of the Turkish people, some of the historians assumed the fact that building a house of stone was considered an affront brought to the Turkish people. Most of the foreign travellers, at that time, noticed the multitude of churches, 60 in total.

It goes on the principle that the church was the main ideological support of feudalism, putting his mark on schools and everything that involves feudal philosophy and art. The monasteries stands out in the city life through the mills they held, also being a source of income, generating conflicts however. Such mills were owned by the monastery Socola, Hlincea by the eighteenth century. They also had in their property the so-called "booths" in the seventeenth and eighteenth centuries, bought by the monastery Dealul Mare, Trei Ierarhi, Galata, St. Sava, Barnova etc., being used for marketing products made by them (Cihodaru and Platon, 1980).

In addition to booths they had inns which traded food and beverages, owned by monasteries like Barnovschi, Golia, and Armenian Church etc., which are exempt from paying taxes to the Royal Court. Following these tax exemptions, monasteries were able to win over the market and achieve significant revenue. Another occupation of the monasteries was gardening, such land is owned by the monastery Barnova and Dealul Mare, which were maintained by Greek gardeners (Vasiliu, 2008).

Many monasteries were built in this period by the princes and boyars, to every monastery being assigned the surrounding territories. Such a monastery is Socola, whose founder was Lapusneanu, in 1557, he also was the one who assigns its surrounding territory till Vasluiet (Erhan, 2003).

Galata din Vale Monastery, built between 1577 and 1579, followed the same pattern. Its founder, Petre Schiopul, was the one who gave to the monastery several villages and a pond. As a result of poor positioning, the monastery collapsed, Petre Schiopul will raise the current monastery Galata, at that time called Galata din Deal. So, he offers to the monastery the current land of Miroslava village. Bishop Teofan offers apiary near the monastery, and hermitages. Finally the monastery reaches to own the territory of Miroslava Vorovesti, Mihailesti, Petresti villages and also the vineyards (Bogdan, 1997). These are just some examples, since most monasteries at that time received properties, among them counting monasteries like Aron Voda, Hlincea, Barnova, Cetatuia, but also monasteries that in the present day does not exist anymore.

Another fact which attests orientation onto religion since ancient times, is when Lapusneanu initiated in Iasi in 1558, a school of religious songs, where recruited students learned Slavonic and Greek, and religious songs in those languages. Later, in the 1600s, such schools have appeared at Trei Ierarhi monastery, bringing as teachers, priests who teach in Latin, but the church is serving in Slavonic. Also during this time, at Trei Ierarhi monastery religious books were printed and another Greek typography was set up at Cetatuia monastery (Iacob, 2009).

At that time, was started another school at monastery of St. Sava and the language of instruction was Greek. First of all, in the existing schools, they were teaching theology and then other areas of interest such as rhetoric, grammar, arithmetic, astronomy, etc., which shows interest in religion. There was a Catholic mission school founded by the Jesuits, having in his property also a library (Erhan, 2003). Later, in 1700 schools came under Metropolitan Administration at the request of Grigore Ghica, providing its money to support them, but it exempted from certain taxes. Among students of these schools were chosen future priests who will serve in churches and monasteries. Students studied in these schools only 4 days a week, the remaining time is allocated for individual study and homework. In the eighteenth century functioned Jesuit, Armenian and Jewish school (Cihodaru and Platon, 1980).

5. The link between church and territory

On Iasi territory we can find many churches, the oldest ones being Sfantul Nicolae Domnesc church, Armenian church, Catholic church, Nicorita church, Cetatuia church, Galata church, Sfantul Sava church etc. I chose to talk about some of the most known churches at a local and regional level, to reveal their importance for the community and tourism.

Figure 1 - Cetatuia monastery, April, 2014

Source: Author's representation

The oldest church is Sfantul Nicolae Domnesc church or the "Royal Church", which started to be built in 1491, being finished in 1492, during the reign of Stefan cel Mare. It can be said that it was built during the clotting of Moldavian style, with characteristic elements such as Moldavian arch, star shaped basis on which towers relied, carved stone, brick etc. This was subject to frequent disasters such as fires and earthquakes, and restoration became necessary. In the church were officiate marriages of the daughters of Vasile Lupu, here were appointed rulers and Constantin Cantemir was buried in 1863, (Tofan, 2008).

With the appointment of Iasi as capital, it becomes a major monastic center. It still feels some influence of the characteristic elements of the Tara Romaneasca, because of the architects who contributed to their construction, these elements can be observed for the first time at Galata and Aroneanu church. In the eighteenth century Italian, architectural elements make their presence felt.

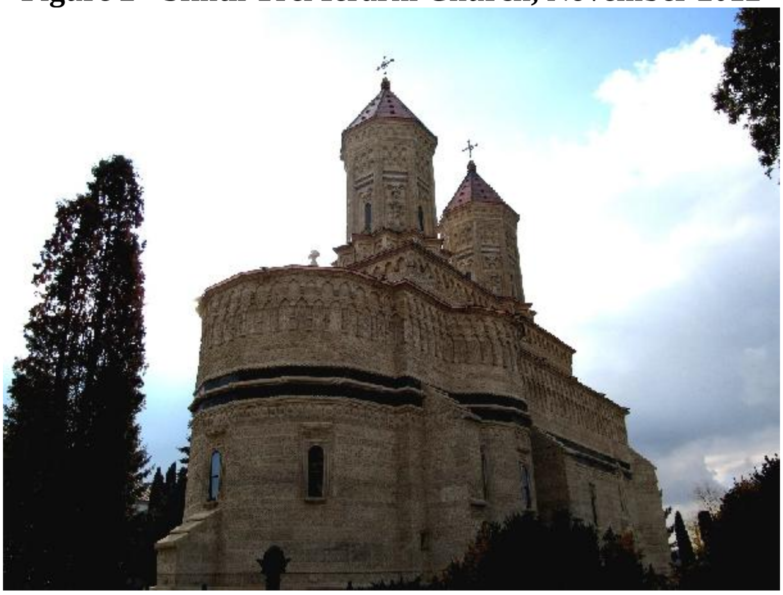
The current Galata monastery, at that time Galata din Deal, was built starting with 1583, the construction having Moldavian elements, but also from Tara Romaneasca. Here are buried 2 children of Petre Schiopul ruler and his wife, this being discovered in 1963, after some diggings, the signet ring having engraved the following message "Maria's seal of Petru Voda". Beside this monastery there were built other buildings, but they got ruined through time, being exposed to deterioration[1]

[1] For further details see: http://www.crestinortodox.ro/biserici-manastiri/manastirea-galata-68011.html (accessed on 8th May 2014).

The old construction of Sf. Sava church is since the 18th century, although there is no trace until now from the old construction, the actual building being built in 1625, the architecture having powerful oriental influences, the door being rebuilt in 19th century (Bogdan, 1997).

During Vasile Lupu reign, Trei Ierarhi church was built, between 1638 and 1639. The architect, according to the Greek inscription, was Gheorghe from Constantinopole, while other researchers sustain that the architect was another Greek named Enache[2]. The church was restored by Lecomte de Nouy between 1882 and 1884, and it suffered some modifications. Here we have the Gothic Hall, modified ulterior in a chapel. Over time, the church was reconditioned in 1905, 1952-1953. Among all the religious objects and the ones which ornated the church, until now there are preserved artistic embroidery, and the objects made of gold and silver were taken to National Museum of Arts from Bucharest (Cihodaru and Platon, 1980). Here are submitted the remains of Vasile Lupu ruler, some members of his family, Dimitrie Cantemir, but also Alexandru Ioan Cuza ruler (Vasiliu, 2008).

Figure 2 - Sfintii Trei Ierarhi Church, November 2012



Source: Author’s representation

Another old church is Golia (XVth century), the founder being Ioan Golia scribe, and it was dedicated by his wife and son to a monastery from Athos mountain. Its construction started during Vasile Voda reign and ended during Stefanita reign, as it was engraved in Greek on top of an entrance (Erhan, 2003). In the following years it was subjected to fires and earthquakes, and sometimes people

[2] For further details see: http://manastireasftreiierarhi.ro/ (accessed at 8th May 2014).

who served the church lost their lives. Vasile Lupu gave as a gift to the church a bronze candelabrum with Moldavian coat of arms and the two-headed eagle[3].

One of the most important churches is Cetatuia, this one being built in the second half of the XVIIth century (1666-1670), and the founder was Gheorghe Duca. By 1800, the church suffered from fires, afterwards fell into ruin, but the church got restored between 1910 and 1912._Inside the monastery there is also a building which served as a private residence for Gheorghe Duca (Vasiliu, 2008).

Nicorita church was built by 1500, the first time built from wood, and by the 1626 to be built the current church instead of the wood one[4]. The founder of this church was Ioan Nicoara, hetman and chief magistrate from Suceava (Tofan, 2008). This church was positioned on Tatarasi hills, as it is today, and Miron Barnovschi gave as a gift to Nicoara some land surrounding the church to build houses, an inn and a pond in the Ciric area. Thus, a little rural settlement was developed and over time got an urban aspect (Cihodaru and Platon, 1980).

Figure 3 - Nicorita church, January 2013

Source: Author's representation

In terms of religious buildings of Jewish affiliation, most of them could be found on Cucu Street. This street was named Fainariei street, bordered by Fainei fair (in the present day, Cucu fair), this fair being situated at a crossroads between Cuza Voda, Cucu and Costache Negri. After the research of Gh. Ghibanescu, Fainei fair was situated in front of Saint Pantelimon church, down of

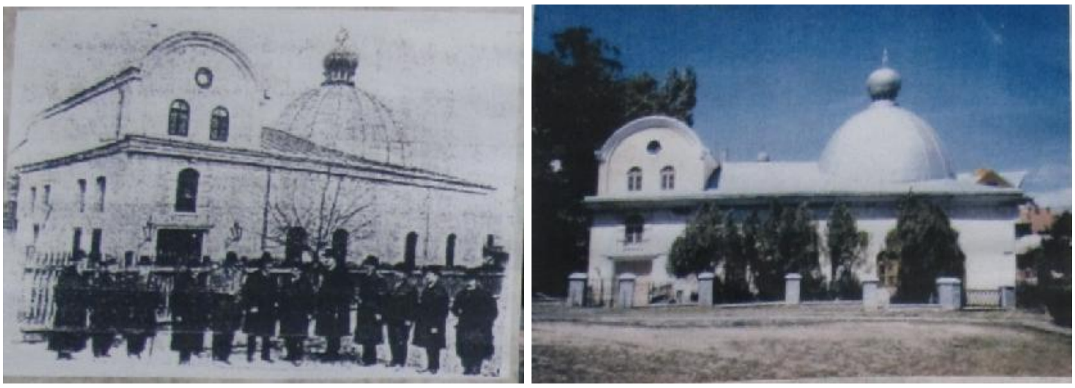
[3] For further details see: http://www.golia.ro (accessed at 8th May 2014).
[4] For further details see: http://bisericanicorita.blogspot.ro/2012/02/istoricul-bisericii-nicorita-iasi.html (accessed at 8th May 2014).

present Cucu fair. It's said that it was the second most important market from the South Fair (Bogdan, 1997).

After analysing a map of Iasi city having mapped Jewish buildings, the map being a property of Jewish Community of Iasi, on Cucu Street were numerous Jewish buildings, such as Furriers Synagogue, Haif Hoffman Synagogue, Big Synagogue, Meniche Synagogue. This fact shows that on this street there were many Jewish buildings (Bogdan, 1997), and through time they were subject to degradation and in the end they disappeared, in their place being built collective housing in the communist period.

There are many opinions regarding the building of Synagogue. Thus, it is said the land on which is built the Big Synagogue was bought in 1657, afterwards the rabbi Natan Nata Hanover insisted that this synagogue to be completed in 1670-1671. Another story tells us that she was built between 1657 and 1682 and the land which was built on belonged to Aron-Voda monastery[5].

Figure 4 - Big Synagogue between 1939 and 1980



Source: Jewish Community from Iasi

The Big Synagogue was reconditioned over time, in 1762, 1914, 1924-1925, 1980, the synagogue being subject to fires during 1800s. All this time it existed beside the synagogue, other ones of much smaller dimensions which belonged to different guilds, the oldest one belonging to Jewish tailors. In the present day the synagogue is in restauration[6].

[5] For further details see: http://www.turismland.ro/sinagoga-mare-din-iasi/ (accessed on 8th May 2014).
[6] For further details see: http://www.fcer.jewishfed.ro/public_html/index.php/actualitate-comunitati/118-comunitatea-evreilor-din-iasi (accessed on 8th May 2014).

Figure 5 - Big Synagogue, November 2013

Source: Author’s representation

On the one side and the other side of the entry in the synagogue there are two inscriptions, one of this inscriptions being in Hebrew, giving thanks to rabbi Moses Rosen and Caufman pharmacist, president of Jewish Community of Iasi.

Figure 6 - Saint Pantelimon church, November 2012

Source: Author’s representation

Another interesting church, although little publicized, is the Saint Pantelimon church, situated on Cucu Street. It was built in 1762 at the initiative of several merchants from Iasi, using as construction material rolls and beams. Her building had a purpose – the merchants believed that it will banish epidemics that haunted the city in that period. Then, in 1805, it was restaured from the ground, but this time from stone.Saint Pantelimon was considered the protector of guilds of doctors, barbers, being described as a healer (Cihodaru and Platon, 1980).

Here it was found a book, which currently is at the Metropolitan typography of Iasi, printed in 1797, and it was written the following text: ”This book is called Ciaslov, given by His Grace Metropolitan James Stamati when I became a priest along with a liturgy, and a sum of 100 lei and 12 for all my priesthood, for the Bishop who have consecrated catachismus, for the soul of the deceased nephew of His Hollines Grigorie, who died of plague in 1799, and who would feel tempted to steal to be unforgivable by me forever and ever – September 1799” (Bogdan, 1997).

Conclusions

After this research, I can firmly say that churches and monasteries contributed to the development of human settlements, due to economic activities that churches and monasteries had and land they received from their founders and noblemen. Most of the churches had inns, stores in which they commercialized their own products, they had farmlands and houses. Thus, they contributed at the economic development, but also at the expansion of the city. These churches had the support of the rulers, most of them being built by them.

We can observe from the analysed documents that across Iasi we can find many churches, including between the oldest ones churches like Sfantul Nicolae Domnesc, Armenian, Catholic, Nicorita, Cetatuia, Galata, Sfantul Sava etc. Thus, I chose to write about some of the most known churches at a local and regional level, to highlight their importance for the community and tourism.

Iasi became a monastic centre of great importance, once it became the capital of Moldova. In their architecture we can feel some Vallachian elements, because of those who contributed at their building, these elements being noticed for the first time at Galata and Aroneanu church.

Due to the many religious buildings that our city enjoys, we can rely on religious tourism, even though it is not as developed as we wish. The most promoted event from a touristic point of view it is represented by the pilgrimage at the relics of Saint Parascheva which gathers year by year many Christians. On the basis of this religious celebration, accommodation units can enjoy, also the food establishments, traders from all over the country, in this period of the year being an entire collaboration to satisfy the needs of the tourists.

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ROMANIAN BANKING SYSTEM: THE DEGREE OF FINANCIAL INTERMEDIATION AFTER THE FINANCIAL CRISIS

Mihaita-Cosmin POPOVICI*

Abstract: *In this paper we analyze the evolution of the Romanian banking system after the 2007 financial crisis and the country's accession to the European Union. The first part analyzes the main elements of the banking system: ownership structure, number of employees and banking units, loans and non-performing loans. The second part analyzes the level of financial intermediation of the banking system. The results showed that majority of the capital is private and foreign, the top five banks held over half of the bank assets, number of employees decreased due to the crisis and non-performing loans share had increased by over nine times. Romanian banking system have a low degree of financial intermediation, but the new developments of the EU banking systems proved that it can be a strong point.*

Keywords: Romania; banking system; degree; financial intermediation
JEL Classification: G01; G21

Introduction

During the crisis, the Romanian banking sector did not need support from public funds, and the main prudential indicators are placed at an appropriate level. Romanian banking system has demonstrated structural stability and managed, without major difficulties, to overcome the challenges of increasing the rate of bad loans and optimization of loan portfolios amid regulatory constraints. The main challenges to financial stability remains the credit risk and foreign contagion risk (Romania Banking Association, 2014).

The paper shows the evolution of the banking system in Romania after the 2007 financial crisis and the country EU accession. The first part describes the main elements of the banking system: ownership structure, number of employees and banking units, loans and non-performing loans. The second part analyzes the degree of financial intermediation of banking system in the Romanian economy.

1. A description of Romanian's banking system

In 2014, 40 banks were registered in Romania, from which 38 credit institutions with private majority ownership, 34 credit institutions with foreign majority ownership and 9 branches of foreign banks.

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After the transition to a market economy in 1990, the banking system was mainly state-owned, but through a series of privatizations and foreign banks entries situation has improved. In 2014, the Romanian banking system had 91.7% (Table 1) private majority ownership. Bank of Cyprus owned 10% of Banca Transilvania shares, but in 2014 sold its stake to three Romanian funds. Also it sold its branches from Romania to Marfin Bank Romania. After the Bank of Cyprus sold its stake in Banca Transilvania, the share of foreign ownership fell to 81% (Table 1) and now Banca Transilvania has domestic private ownership.

Table 1 – Share of private and foreign ownership, first five banks and Herfindahl - Hirschmann Index between 2007 and July 2014

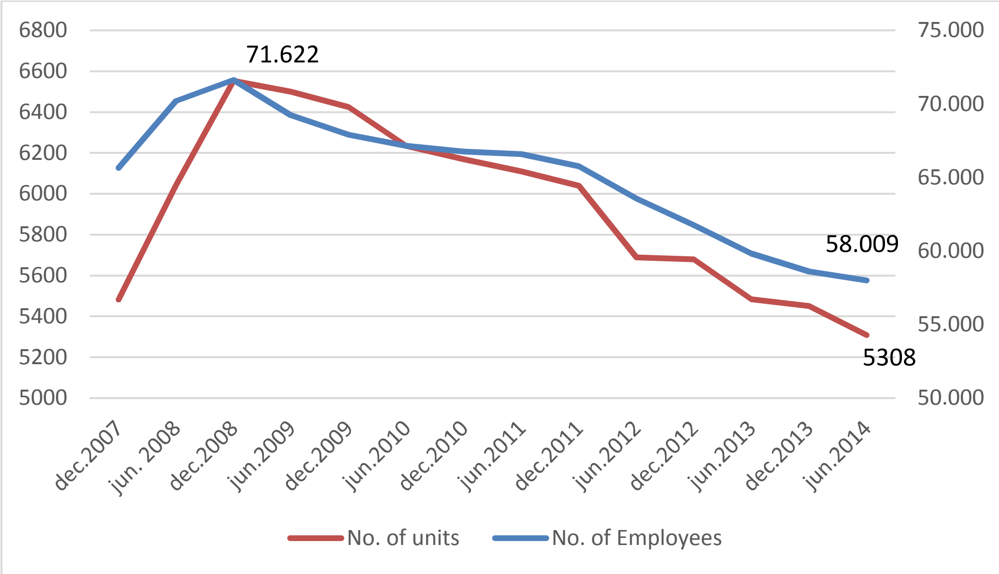
	2007	2008	2009	2010	2011	2012	2013	July 2014
Share in the total banks assets of private majority ownership (%)	94.7	94.6	92.5	92.4	91.6	91.6	91.5	91.7
Share in total banks assets of foreign ownership (%)	88	88.2	85.3	85	83	89.8	90	81
Share of first five banks in total banks assets (%)	56.3	54.3	52.4	52.7	54.6	54.7	54.4	53.9
Herfindahl -Hirschmann Index (points)	1046	926	857	971	878	852	821	806

Source: Romanian National Bank database

Herfindahl index (also known as **Herfindahl–Hirschman Index**, or **HHI)** “is calculated by squaring the market share of each firm competing in the market and then summing the resulting numbers” (The United States, Department of Justice, *n.d.*). For example, for a banking system with three banks with shares of 30, 30 and 40 percent, the HHI is $30^2+30^2+40^2=3{,}400$. A higher score indicates a greater concentration banking system and a lower score represents a system with a large number of banks of relatively equal sizes.

The HHI score of 806 points in 2014 (Table 1) is an improvement compared to 2007 and indicates a lower concentration of the banking system. The share of the first five banks (Table 1) was reduced to 53.9% (2014) from 56.3% (2007) and supports the lower degree of concentration.

Figure 1 – Number of employees and number of bank units between December 2007 and June 2014 in Romania



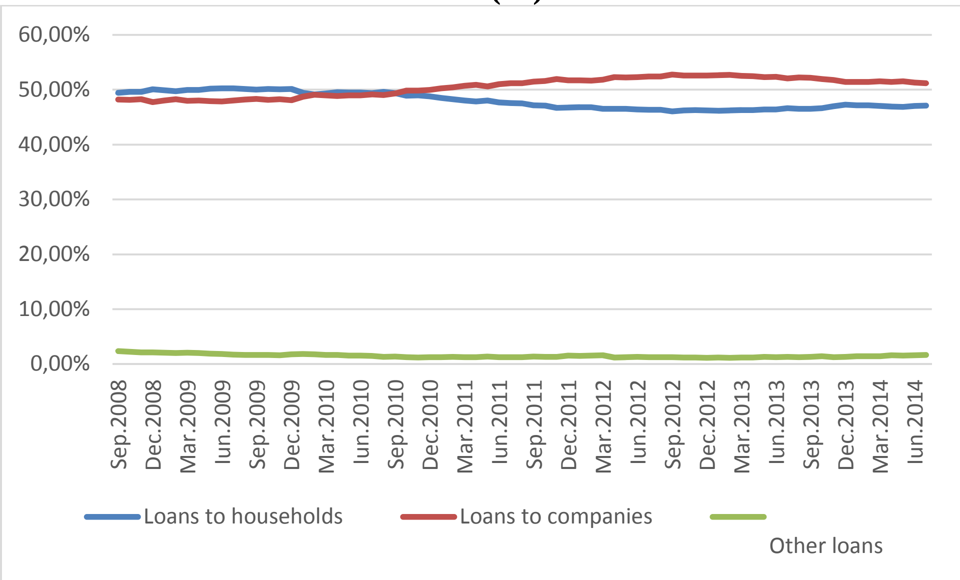
Source: Romanian National Bank database

The financial crisis has spread to Romania, affecting the banking system as well. The expansion of the banking system stopped and banks have tried to cut costs by closing agencies and reducing the number of employees in order to improve performance. 20% of employees (from 71.622 to 58.009) in the banking system were fired (Figure 1, blue line, right scale) and territorial network (Figure 1, red line, left scale) was reduced by 19% (from 6.552 to 5308).

Until 2010, household's loans (blue line) held the largest share in total loans (Figure 2), but from 2011 loans to companies (red line) held the largest share. Other types of loans (green line) have a non-significant share of under two percentage.

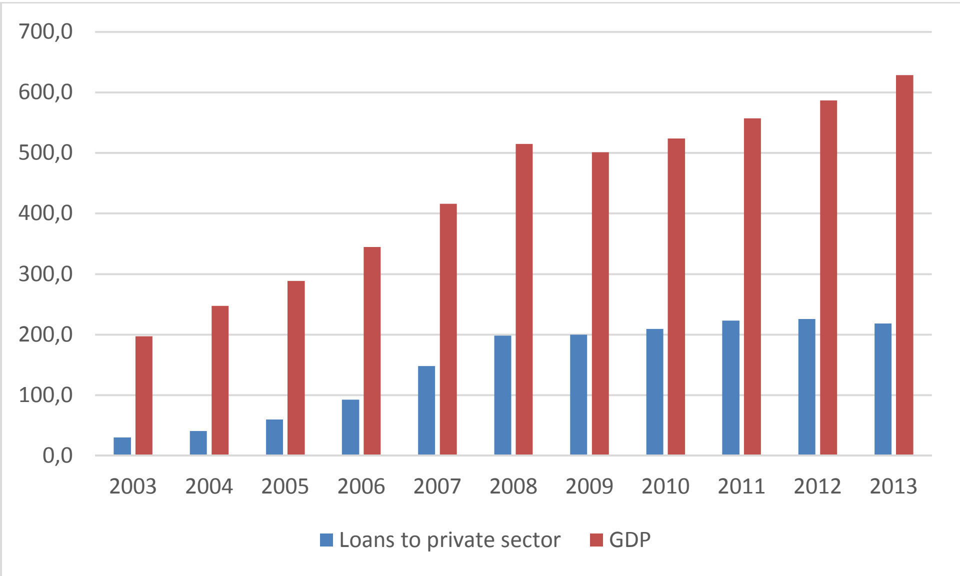
In Figure 3 we see the correlation between Gross Domestic Product (GDP) and loans to private sector. Due to the contagion effect of financial crisis, Romanian GDP fell by 6.6% in 2009 (Eurostat database) compared to 2008. The fall in GDP has reduced household credits as unemployment increased and people have fewer resources to pay monthly instalments.

Figure 2 – Loans to households, companies and other between September 2008 and June 2014 (%)



Source: Romanian National Bank database

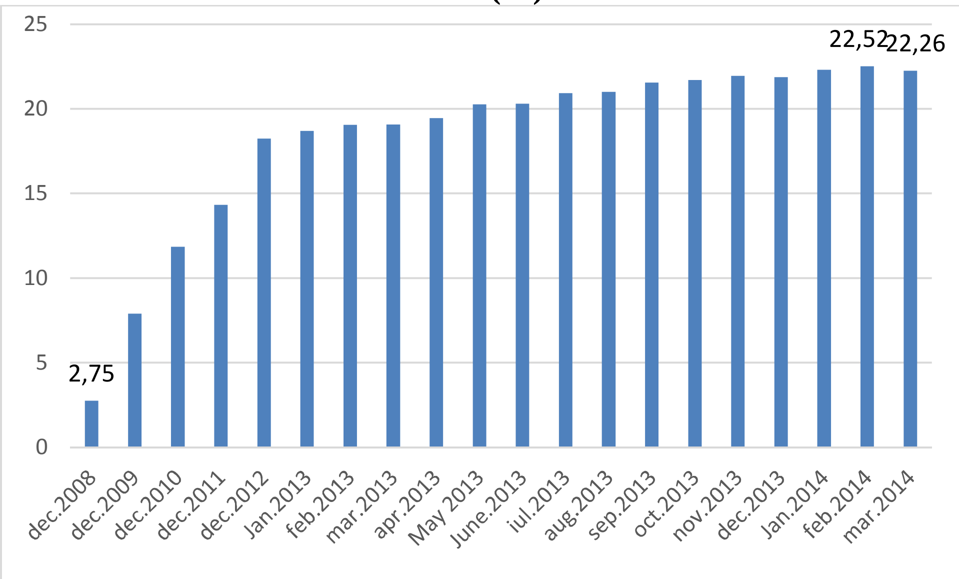
Figure 3 – Loans to private sector and GDP between 2003 and 2013 (billions RON)



Source: Romanian National Bank database

Banks granted easily loans to households, without a thorough examination of the possibilities of returning credits. Share of non-performing loans between December 2008 and February 2014 increased nine times, from 2.75% to 22.52% (Figure 4).

Figure 4 - Share of non-performing loans (over 90 days) between December 2008 and March 2014 (%)



Source: Romanian National Bank database

Romanian National Bank issued a recommendation for banks to provisioned 90% of exposures of insolvent companies, but only four banks have complied with the recommendation. After November 30, 2014 other banks risks suspension of the right to collection of term deposits (Capital, 2014a).

The losses of the banking sector in Romania since the beginning of the crisis and exceeded one billion Euros (2013). Provisions made by banks in the cleaning process of NPL portfolio resulted in a system net loss at nine months of 1.58 billion RON (2014) (Hotnews, 2014). Part of the loss was covered by charging high fees to banking services (Capital, 2014b).

2.The degree of financial intermediation

In 2004, on the biggest wave of accession of ten countries (Czech Republic, Estonia, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Slovenia and Slovakia) to the European Union, Romania wanted to be part of the select group because it was seen as a safety net that will protect it in any way and will not repeat the seizures experienced by the economy and society in the 90s. Moreover, euro area countries were seen as final target, a dream place.

Table 2 – Assets/GDP

Year	2008	2009	2010	2011	2012	2013	2014 T2
%	67,4	74,2	75,0	70,5	69,0	65,0	61,6

Source: Romanian National Bank database

"The banking system is still, for many years, one of the weaknesses of the Romanian economy. There is not a sector that can really mediate between people who save money and those who need money. The good news is that lately many foreign banks have come through the standards they bring, can increase competition," said Nout Wellink, a large Dutch banker (Ziarul Financiarul, 2013).

Today, more than ten years later, this delay "development" of bank intermediation is presented as a strong point for Romania. Romania has only 61.6% (Table 3) share of bank assets to GDP, compared to 200-300% every Western country and even 700-800% in Cyprus.

Table 3 – Loans/GDP

Year	2008	2009	2010	2011	2012	2013	2014 T2
%	39,3	40,7	40,7	40,0	38,5	34,8	33,3

Source: Romanian National Bank database

Until 2013, the indicator Loans/GDP (Table 3) was higher than deposits/GDP (Table 4) because banks received funding from parent banks. The financial crisis has affected parent banks and they reduced funding to entities in Romania (Bancherul, 2014) and the only chance for further lending represent deposit collection from domestic market.

Table 4 – Deposits/GDP

Year	2008	2009	2010	2011	2012	2013	2014 T2
%	30,0	34,1	34,5	33,6	33,6	34,3	33,2

Source: Romanian National Bank database

Maintaining deleveraging, after 5 years of crisis, even at a sustained pace, it is not a positive sign for the banking market or Romanian economy, which has fewer and fewer resources available for financing from foreign banks. The main source of funding for credits remains attracting deposits from the population, but the interest rate on deposits is on a downward trend which discourages saving.

Conclusions

In the last 25 years, the banking system in Romania has come a long way from centralized economy to a market economy, with 40 banks, and private and foreign majority ownership. In 2014, 91.7% of total banks assets were held private, 81% were foreign ownership and the first five banks held 53.9%. Banks were affected by the financial crisis, 20% of employees were laid off and 19% of the territorial network was closed.

Share of non-performing loans increased nine times between 2008 and 2014 and the Romania National Bank issued a recommendation for banks to provisioned 90% of exposures of insolvent companies, but only four banks have complied with the recommendation. After November 30, 2014 other banks risks suspension of the right to collection of term deposits.

The banking system in Romania shows, even in 2014, a low degree of financial intermediation, but developments in the world economy shows that this can be an advantage, even if a decade ago was considered a weakness.

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WHAT CAUSES INSOLVENCY? A STUDY REGARDING BIG AND MEDIUM ROMANIAN ENTERPRISES GOING BANKRUPT IN 2013

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Abstract: *The failure of a company, whether insolvency or bankruptcy, has been a topic featured by countless researchers from various fields over time. In an attempt to counteract this negative phenomenon most of the studies focused on developing bankruptcy prediction models, omitting the actual reasons that caused the insolvency.*

In the present article we will try to determine the main reasons causing insolvency among the largest companies in Romania in 2013. In this purpose, we made a Top 10 Romanian companies which became insolvent in 2013 taking into consideration the report published by Euler Hermes in 2014 "Economic Outlook. Insolvency World Cup 2014: Who will score fewer insolvencies?". Subsequently, we examine "The Report on the causes and circumstances that led to the insolvency of the debtor" for each individual company from the proposed top. After analyzing the reports for all ten companies studied we found that an increasing of indebtedness and debt collection period, with disinvestment and poor management were the main causes that led to the insolvency in 2013 of the Romanian companies studied.

Keywords: insolvency; determinants of bankruptcy; Romania
JEL Classification: G33

Introduction

Most studies on insolvency and bankruptcy, like Beaver (1967) or Altman (1968), are focused on predicting this phenomenon on the basis of information provided by the annual financial statements of the companies included in the study (generally the researcher build statistical models using financial ratios). Although research findings converge on the importance of financial aspects in forecasting insolvency, several studies focused on non-financial factors such as poor management, membership of a group of companies (Baum and Mezias, 1992) or the size of companies (Hall, 1992).

Since the objective is to determine the causes of insolvency based on the reports of insolvency administrators for each company, in reviewing the literature and previous research conducted we will consider only those studies relevant to the topic addressed. In this respect, we eliminated the studies based on predictions, focusing on those using data related to actual insolvencies that took place over the years. The results of the most relevant studies show that insolvencies have being caused by a mix of factors, financial and non-financial, the difference being made by size criteria, specific economic sector and economic environment, in general.

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1. Literature review

The causes of insolvency were the subject of countless researchers. Some considered important non-financial factors (Baum and Mezias, 1992, Greening and Johnson, 1996, Swaminathan, 1996), while others focused on the financial ones (Santomero and Visno 1977, Myers and Majluf, 1984). In general, studies have taken into account criteria such as company size or sector to which they belong. Size of the companies was a particular concern in studies of Hall (1992) and Back (2005), who consider it a key factor in the insolvency of firms. Charan and Useem (2012) appreciated management as the main responsible of insolvencies, the results of their study indicating managerial errors as a major cause of firms' bankruptcy.

Considering both financial and non-financial factors, Ooghe and Waeyaert (2006) proposed a conceptual model in which they identified five main categories of causes of insolvency. They are presented as follows:

1. General environment refers to different factors (economic, political, social, and technological) or issues regarding government behavior, functioning of financial markets and institutions, National Bank policy.

2. Immediate environment involves the relationship with interested stakeholders as: customers, suppliers, competitors, banks, credit institutions or stockholders.

3. Characteristics of management or the entrepreneur include motivation, skills, qualities, and other personal characteristics of the managers. Usually, personal characteristics are considered to be the most critical factor in a company's failure.

4. Corporate policy covers adopted strategies regarding different activities within the firm as investments, marketing, sales but also day to day operations, administrative issues, financial and human resources, management and corporate governance.

5. Company's characteristics include the size, maturity or the industry that companies belong to.

When analyzing bankruptcy[*] usually the studies show that there are at least two or more factors contributing to insolvency.

[*] In this paper, we use either bankruptcy or insolvency when discussing companies' failure.

2. Analysis of Romanian studies on the causes of insolvencies in 2013

In Romania, insolvency cases were discussed in terms of forecasting, the studies up to date considering the companies not yet insolvent, but close to this stage. An analysis performed on companies already in insolvency was carried by Transylvania Insolvency House (2013). The sample used consisted of large and medium sized companies that became insolvent in 2011 and 2012 whose procedures were administered by the aforementioned company. Based on 650 insolvency procedures performed in 2011-2012 and analysis reports prepared in order to identify root causes of firms' insolvency, the results of Transylvania Insolvency House report indicate as the main cause of insolvencies in Romania, over-indebtedness. Other common causes that generated the imbalances of companies refer to a decrease in consumption, continued company losses, a degree of leverage over real ability to pay, and bad decisions of the management team. Although the drop in consumption is the main cause invoked by managers, a careful analysis shows that it only ranks No. 3 in a top of the real reasons, while on the second place are situated the wrong decisions of the management team.

The Top of insolvency causes detected by Transylvania Insolvency House is the following:

Table 1 - Causes of insolvency among Romanian firms in 2013

Top ranking	Causes	Percentage
1	Over indebtedness	49%
2	Wrong decisions of the management team	43,1
3	Decrease in consumption	43%
4	Continuous losses	31%
5	Membership to a group of companies	9%

Source: Transylvania Insolvency House (2013)

In this context, it is found that there are very few situations when the insolvency of a company has a single cause. In most cases it is a 2-3 aggregate factors that overlap and combine management decisions with external circumstances. But, more serious is that management teams do not detect or don't admit insolvency situations in time. From the analysis conducted by Transylvania Insolvency House it's revealed that over 90% of companies declared insolvent in at least 18 months after the appearance of this state, which decreased the chances of company recovery.

Decreased consumption is a cause specific to trade activity, while the lack of profitability affects frequently production. Other important reasons are continued losses in the current work (31% of cases), and the chain effects of imbalances, where the insolvency of a company has a direct impact on others (5%). In 4% of cases, losses of important contracts, unfair competition or main shareholder death were the main reasons that led to the insolvency of a company.

A study of Coface (2014) addressing what causes insolvency among firms in Romania in 2013 found comparable results with those of Transylvania Insolvency House. In general, in most of the cases studied, over indebtedness was the main cause of insolvency, but not the only one. Coface believes that a accumulation of factors is more appropriate when determining insolvency, loosing contracts or having important quantities of unsold merchandise being relevant in this matter.

Comparing the cases identified in the study of Transylvania Insolvency House (2012) and of Coface (2014) with those mentioned in the study of Ooghe and Waeyaert (2006) we found that they're consistent, each falling within one of the categories proposed by Ooghe and Waeyaert. In this respect we are going to analyze the 10 main insolvencies taking place among big firms in Romanian in 2013, framing them in the categories proposed by Ooghe and Waeyaert (2006).

3. Causes of insolvency for the largest Romanian companies in 2013

Taking as starting point the research of Ooghe and Waeyaert (2006), the studies of Transylvania Insolvency House (2013) and Coface (2014), the report of Euler Hermes (2014) we selected a number of 10 Romanian companies (big and medium) which became insolvent in 2013. The selection criteria was the turnover in the last year before declaring insolvency, meaning 2012.

For each of the companies selected we stated the month of declaring insolvency in 2013, the name of the company, the last turnover in the year before insolvency and the industry they belong to. The Top 10 was elaborated based on the Romanian companies mentioned in the Euler Hermes Report (2014). The results are shown in Table 2.

Table 2 - Top 10 Romanian companies going insolvent in 2013

Ranking	Month	Company's name		Turnover in 2012 (millions of euro)	Industry
1	February	Oltchim SA		341	Manufacturing of basic chemicals
2	February	Mechel Targoviste SA		244	Manufacturing of basic iron and steel
3	March	Ductil Steel SA		233	Manufacturing of basic iron and steel

4	February	Grup Romet SA		176	Manufacturing of other fabricated metal products; metal working service activities
5	November	Regia Autonoma Pentru Activitati Nucleare		142	Chemicals
6	February	Ecoforest SA		112	Manufacturing of basic iron and steel
7	February	Aromet SA		104	Manufacturing of basic iron and steel
8	September	Alpine SA		53	Building of complete constructions or parts thereof; civil engineering
9	February	Dobrogea Grup SA		51	Manufacturing of food products and beverages
10	March	Laminorul SA		43	Manufacturing of basic iron and steel

Source: authors' projection based on Romanian companies mentioned in Euler Hermes Report in 2014

For each of the aforementioned companies were considered "Report on the causes and circumstances that led to the insolvency of the debtor" drawn up by the insolvency administrator of the company and submitted to courts. The reports were accessed either from the National Trade Register Office or the official website of insolvency administrators of the companies.

After studying reports on the causes and circumstances of the insolvency we noticed that in 70% of cases indebtedness and difficult collection of receivables, or, in other words, increased debt collection period were the main reasons for recourse to insolvency in the analyzed companies. The difference is covered by disinvestment, represented by the decrease in assets held by large companies in Romania or loss or cancellation of contracts with certain customers, usually the big ones. The results of studying the related reports of the 10 companies are consistent with those of Coface and of Transylvania Insolvency House (2013) on insolvencies recorded among large and medium-sized firms in 2013.

Over 50% of companies analyzed reported in the annual financial statements for 2012 decreases in turnover of approx. 12%, reduction in deferred income of approx. 8% and reductions in inventories held by about 7%. Simultaneously, the level of indebtedness calculated as a percentage between total debt and total assets reported at the end of the financial year 2012 increased by about 25% compared to 2011. Since the debt in 2012 and increased investment in assets abated we can say that we are in the situation of mismanagement.

Loss of orders or cancellation of existing contracts with major customers was another reason that led to the opening of insolvency proceedings (over 60% of the analyzed companies lost contracts with major customers during 2012). Since the share of current assets increased in 2012, we can say that the products made by the companies studied have remained in stock, customers preferences directing toward cheaper similar products from foreign markets. To support this factor we viewed articles in the trade press during 2013 on the situation of certain companies (for example Romet SA). We found that the management company argued the loss of major contracts with domestic customers at the expense of similar products imported from China at lower prices. Therefore, we believe that market orientation towards products more affordable in most cases analyzed contributed to the degradation of the financial stability of enterprises, and finally, to insolvency.

Framing the obtained results after studying the reports on the causes and circumstances that led to the insolvency of the debtor in all of the 10 companies in the structure proposed by Ooghe and Waeyaert (2006) we identified factors from: immediate environment (interactions with diverse stakeholders as customers, suppliers, competitors, banks, credit institutions and stockholders); characteristics of management (motivation, skills, qualities, and other personal characteristics) and corporate policy (management style, adopted strategies regarding different activities within the firm as investments, marketing, sales but also day to day operations, administrative issues, financial and human resources, management and corporate governance). From categories as general environment and company's characteristics were not identified any factor, but we believe that future research could obtain relevant results in this respect. Even our study focused on the 10 biggest Romanian companies going bankrupt in 2013, we consider that a deeper analysis that would focus on the industry or size of the company could show there is a direct linkage between these criteria and the increased number of insolvencies in some economic sectors in Romania.

Conclusions

Seven Romanian companies with a turnover bigger than 100 million Euros in 2012 became insolvent during 2013. The last three from the Top 10 insolvent companies recorded in the previous year of insolvency a turnover between 60-30 million Euros. Most of them were from the industry of manufacturing basic iron and steel (Mechel Targoviste SA, Ductil Steel SA, Grup Romet SA, Ecoforest SA, Aromet SA), while another two belonged to chemicals industry (Oltchim SA, Regia Autonoma pentru Activitati Nucleare). Analyzing the reports submitted by insolvency administrators of the companies regarding the causes and circumstances that led to the insolvency of the debtor we found out a mix of causes, ranked as follows:

Table 3 - Causes of insolvency for Top 10 Romanian firms going bankrupt in 2013

Top ranking	Causes	Percentage
1	Over indebtedness	70%
2	Loss of contracts	64%
3	Decrease of turnover	55%
4	Continuous losses	43%
5	Membership to a group of companies	40%

Source: author calculations based on the analyzed reports regarding the causes and circumstances that led to the insolvency of the debtor of the Top 10 insolvent Romanian companies.

Our result is consistent of those of Coface (2014) and Transylvania Insolvency House (2013) showing that insolvency is the result of several factors, some of them incontrollable by management's company. Determining which contributed the most to this estate can be difficult for actors involved, and, usually, highly expensive. But as Romanian law imposes, the elaboration of the "Report regarding the causes and circumstances that led to the insolvency of the debtor" by the insolvency administrator is compulsory, although in the end there were cases when instances ruled against some reports and based their verdicts on other facts as well. How relevant remains the economic substance of some juridical aspects, or, in other words, if in a court the substance over form principles is applied is still questionable.

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THE LEVEL OF KNOWLEDGE IN THE VALUE RELEVANCE LITERATURE

Mihaela Alina ROBU*

Abstract: *In the last decades, numerous studies have covered the relationship between stock price or stock return and financial information. These studies represent the "value-relevance" literature. Knowledge of this area of interest, through literature and the main ideas, yields scientific progress. The aim of the study is to achieve a qualitative and a quantitative analysis regarding the level of knowledge in the value relevance literature, in an international context. To achieve this aim, a number of 53 scientific articles published between 2001 and 2013 were selected, from the first two journals related to the number of citations in the rankings compiled by Google Scholar, Accounting and Taxation category. Qualitative analysis and quantitative analysis (factorial analysis of multiple correspondences as statistical method) were used. The results reflect the importance of existing problems in the financial markets. The studies are focused on solving these problems, to support the investors.*

Keywords: value relevance; articles; journals; qualitative and quantitative research
JEL Classification: C14; G15; M41

Introduction

With the growth opportunities related to financial markets, investors, owners of available capitals aim at identifying and developing new methods, techniques and tools that can indicate the categories and types of investments with high return.

In the decision-making process, one of the categories of information on which they rely is represented by the financial information taken financial statements. According to the International Accounting Standards Board (IASB, 2013), the overall objective of financial reporting is to provide useful financial information to users of financial statements regarding the reporting entity. From the entire users of financial statements, it is considered that investors assume the greatest risk.

The investors' decisions are reflected through the stock price with impact on the gain obtained as a result of holding the shares (stock return and capital gains yield). Studies which use the gain to reflect the investors' decisions provide evidence regarding the events that affected a company in a certain time, the gain or loss arising in a period of time. In contrast, studies using price analyze the answer of the market for a short period of time after the occurrence of certain events (Easton, 1999).

In the last decades, numerous studies have investigated the relationship between stock price or stock return and financial information. These studies are called the "value relevance" literature (Holthausen and Watts, 2001).

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The objective of this study regards achieving a qualitative and quantitative analysis of the level of knowledge in the value relevance literature, in an international context. To achieve this goal a number of 53 scientific publications related to the first two journals was selected. These journals were selected according to the number of citations, from the ranking carried out by Google Scholar, category Accounting and Taxation.

1. Literature review

The value relevance of financial information was one of the subjects of interest in international studies. First of all, this was due to the importance of information from financial statements (annual or interim) in making investment decisions.

Barth *et al.* (2001) and Beisland (2009) define the concept of value relevance of financial information as the association between it and market information. This association is seen by El-Sayed Ebaid (2012) through the characteristic of financial information to influence the decision making process of investors, reflected in the stock price or stock return.

From the point of view of international regulation, the concept of value relevance is not explicitly recognized by standardization bodies. In both recognized international standards (IFRS and US GAAP), the conceptual framework presents relevance as a fundamental qualitative characteristic of the information presented in the financial statements, together with reliability (El-Sayed Ebaid, 2012; IASB, 2013). While financial information is considered relevant if they have the ability to generate a difference in the decisions made by users, reliability of the information refers to the faithful representation of those phenomena that it aims to represent (Barth *et al.*, 2001 IASB, 2013).

Barth *et al.* (2001) identifies a link between the concept of value relevance and the two fundamental qualitative characteristics of financial information. The concept of value relevance is actually a test used to verify the existence of these qualitative characteristics in the information presented in the financial statements. Thus, it is considered that the financial information is value relevant only if it is relevant by investors to assess a company and it faithfully represents the reality to be reflected in the stock price.

While analyzing a series of studies regarding the value relevance of information provided by financial statements, Holthausen and Watts (2001) performed their classification considering the issues investigated. The first category is called relative association studies, testing the existence of any link between the information provided by the stock price or stock return and financial information. This study examines whether financial results under certain standards or accounting regulations have a high association with market values than using other accounting standards.

The second category of studies, which Holthausen and Watts (2001) refers to is represented by incremental association studies. These studies examine whether the financial information of interest is useful to explain the stock price or stock return.

The last category of studies analyzed by Holthausen and Watts (2001) refers to marginal information content studies, which examines whether specific information added to the one available is considered value relevant. These studies primarily use event analysis. If stock price changes significantly in the near future or after the occurrence of the event, then that event send new information on how to obtain future cash flows (Kothari, 2001).

Although studies regarding the value relevance of financial information focused on identifying those significant factors for the decisions making process (book value of equity, earnings, cash flow, different financial ratios – Return on equity, Return on assets, Return on investments, etc.) with the development of international regulation, empirical research has focused on specific areas such as value pension funds, R&D, voluntary and mandatory disclosure, IFRS and US GAAP, audit report.

From the point of view of Romanian literature, topics of interest regarding the value relevance of financial information took the form of empirical studies such incremental association studies, analyzing the relationship between stock price or stock return and financial information (Filip and Raffournier, 2010; Tudor, 2012; Jaba *et al.*, 2013; Robu M.A. and Robu I.B., 2014a) or relative association studies, analyzing whether the adoption of International Financial Reporting Standards provide investors with more value relevant information (Robu M.A. and Robu I.B., 2014b).

The knowledge and the profound study of the value relevance of financial information through theoretical and methodological approaches (factors, measurement and methods of valuation, financial market implications) can lead to new research directions. The existing studies focused on developed countries can represent a real support for the analysis of this issue in the emerging countries, representing a real support for investors and for the accounting convergence process.

2. Research methodology

Starting from the literature corresponding to the value relevance of financial information, the article comes to conduct an exploratory analysis of the main issues in this field, in order to identify the determining factors, which stood at the base of the emergence of the analyzed studies. The exploratory analysis also supports the identification of a research trend regarding the value relevance concept and of some insufficiently approached research directions. These studies which were made at an international level through the eye of reasoning, the methodology and the results represent a starting point for the case of Romania.

As a working hypothesis, the study aims to obtain a profile of the level of scientific knowledge for the value relevance field, based on the interaction between determinant factors which have been identified.

2.1. Target population and analyzed sample

Sample population is represented by all the studies whose main research subject is the value relevance of financial information. From their entirety, a sample of 53 studies conducted between 2001 and 2013 was selected according to the principle of the rational choice (Jaba, 2002) from *Journal of Accounting and Economics – JAE* and *The Accounting Review – AR*. The two journals were chosen after having consulted the ranking carried out by Google Scholar. During the performance of the investigation, the aforementioned journals were the first two regarding the number of citations, in the fields of Accounting & Taxation. While the articles in *Journal of Accounting and Economics* were selected from the ScienceDirect database, the articles in *The Accounting Review* were selected from the *American Accounting Association* website. In order to choose the articles, the keywords ***value relevance***, ***financial statements*** and ***financial markets*** were considered.

The choice of 2001 as a reference year concurs with the emergence of the first financial scandals (Enron in 2001), events that called in question the accuracy and the veracity of the information in financial statements for investors. Also, the *International Accounting Standards Board – IASB* replaced the *International Accounting Standards Commitee – IASC* in 2001.

2.2. Analyzed variables and data source

In order to reach the results, the variables considered in the analysis are:

- *Author* (helps at the identification of the article);
- *Year* (shows the year the article was published and has values from *2001* to *2013*);
- *Journal* (shows the journal the article was published in and has the *JAE and AR* values);
- *Study type* (indicates the study type: literature review – *LR*, critical study – *CS* and empirical study – *ES*);

- *HW_study_type* (indicates the study type according to the classification of Holthausen and Watts (2001): relative association study – *RAS*, incremental association study –*IAS* and marginal information content study – *MICS*).

Data analysis has been performed using SPSS 20.0 statistical software.

2.3. Data analysis method

The development of this study started from the papers of Jaba and Morosanu (2001) and Robu (2012), respectively. Through a qualitative analysis, the principal research topics in the value relevance literature were identified. Subsequently, through a quantitative analysis, using multiple factorial correspondence analysis (MFCA) the trends in value relevance literature were identified. In this study, MCFA is used to shape the trend of the research regarding the influence of the financial information on the stock price or stock return.

MFCA has been developed by Jean-Paul Benzécri in the 1960's. MFCA comes to study the relations, associations between at least three categorical or nominal variables (Lebart *et al.*, 2006). Considering a sample of *n* individuals with the data corresponding to *m* variables, each variable being representing by at least two categories, the use of MFCA determines the profile of one individual depending on the existing associations between the considered variables (Mironiuc and Robu, 2011). MFCA is considered a mapping method that performs data reduction, filters data set and performs association between variables.

3. Results and discussions

The first results reached through data processing describe the descriptive analysis through the issuance frequency of the articles, depending on the year of issuance and the study type. The issuance frequencies thus emphasize, on the one side, the predilection for value relevance topic in the considered period, and, on other side, the preference for a series of studies. Through the structuring of the sample depending on the year of issuance of the studies, Table 1 displays the periods that were seen as representative and which reflect the researchers' interest regarding the value relevance of the financial information.

Table 1 – The structure of the sample depending on the articles issuance year

Year of issuance	Absolute frequencies	Percentage frequencies	Cumulated percentage frequencies
2001	4	7.50	7.50
2002	6	11.30	18.90
2003	7	13.20	32.10
2004	3	5.70	37.70
2005	6	11.30	49.10
2006	3	5.70	54.70
2007	8	15.10	69.80
2008	3	5.70	75.50
2010	3	5.70	81.10
2011	3	5.70	86.80
2012	4	7.50	94.30
2013	3	5.70	100.00
Total	53	100.00	

Source: Own processing

According to the results, the first period of interest for the analysis of value relevance literature is represented by the 2002-2003 period, when 24.50% of the studies within the sample were issued. The interest of the period in the analyzed issue is caused by the emergence of financial scandals, with a significant influence on financial statements, on investors and their trust in the financial information. 2001 also represents the first year of activity of IASB.

The second important period with influence on the studies regarding the relevance of the financial-accounting information is 2005-2007, when 32.10% of the articles in the sample were published. The interest in this period is caused by the mandatory use of the IFRS in the issuance of the consolidated financial statements starting with the 2005 financial exercise, by companies listed on the stock exchanges in the European Union. The *Securities and exchange Commission – SEC* has also started accepting financial statements issued according to the IFRS in 2007, without reconciling the results or the owners' equities.

The following periods are characterized by an approximately constant interest for this topic.

As for the structuring of the sample depending the article type, we can see from Table 2 the preference for the empirical articles (81.10%) to the prejudice of the ones regarding the literature review (7.60%) or the critical ones (11.30%).

Table 2 – Sample structure depending on the study type

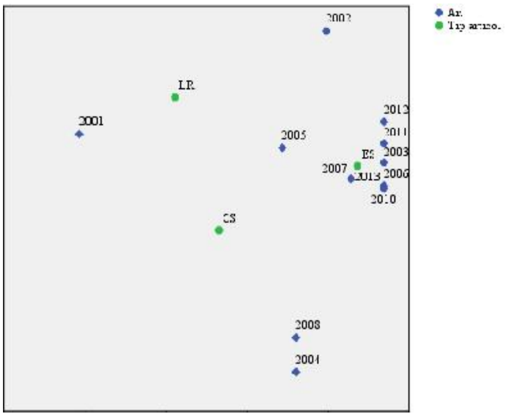
Study type	Absolute frequencies	Percentage frequencies	Cumulated percentage frequencies
Literature review studies (LR)	4	7.60	7.60
Empirical studies (ES)	43	81.10	88.70
Critical studies (CS)	6	11.30	100.00
Total	53	100.00	

Source: Own processing

The low number of studies regarding the literature review (4 articles) is caused by the time that has passed from the issuance of the first studies regarding the influence of the financial information on stock price or stock return (1968) until the reference year of the study (2001), when the theoretical and methodological concept regarding the value relevance have been frequently approached and explicated. Thus, researchers do not rely on displaying the literature review any more, which can be found in a significant number of articles in the early 1990’s. As a result, empirical studies are the ones that gain ground, as a consequence of the advantages that can be gained from them: the identification of the best accounting method amongst the alternative ones, the identification of the most revealing standards from the investors’ point of view, the development of models designed to test the value relevance of financial information.

According to Figure 1, considering the year of issuance of the studies in the sample and the study type, we can notice that studies regarding the literature review are dated especially in 2001, at the beginning of the analysis period, the interest regarding the critical studies being more frequent in 2005 and 2008 and the empirical studies have represented the main research type lately. Although the complexity of the studied phenomenon has amplified, optimizing the research methods, the statistical instruments and the information data bases development have boosted the development of empirical studies.

Figure 1 - The distribution of the considered study types from 2001-2013



Source: Own processing

According to Holthausen and Watts (2001), another study classification from the sample was made, in relative association studies (*RAS*), incremental association studies – (*IAS*) and marginal information content study (*MICS*). Those studies whose objectives were literature reviews, critical studies and the studies that cannot be classified in any of Holthausen and Watts's (2001) categories (for example, empirical studies where the relevance of the financial-accounting information is an independent variable) were excluded from the sample. The resulted sample will thus include a number of 41 studies. The sample structure is presented in Table 3.

Table 3 –Sample structure depending on the study type according to Holthausen and Watts's classification (2001)

Study type	Absolute frequencies	Percentage frequencies	Cumulated percentage frequencies
Relative association studies (RAS)	9	22.00	22.00
Incremental association studies (IAS)	19	46.30	68.30
Marginal information content study (MICS)	13	31.70	100.0
Total	41	100.0	

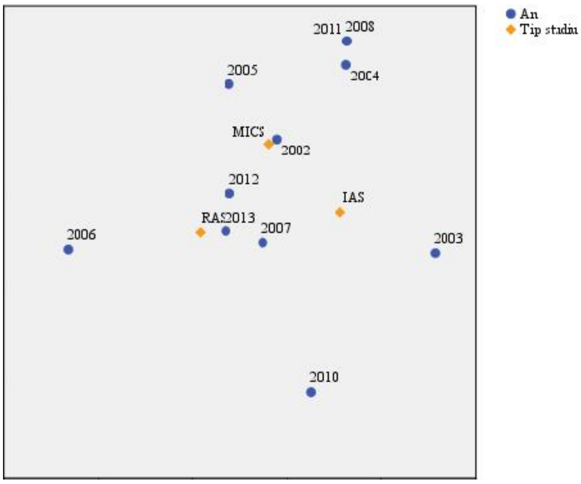
Source: Own processing

According to Table 4, it can be seen that most empirical studies from this period (46.30%) consider the incremental associations regarding the influence of the financial information on the stock price or stock return, as a result of the need to identify the financial information that is relevant to investors when making decisions. The ease they can be applied is an advantage of these studies. Studies regarding marginal information represent 31.70% of the empirical studies sample and are mainly based on the analysis of the events, on identifying the influence of certain events, such as communicating the results to the participants on the capital market or the communication of relative information to the dividends' distribution.

Studies regarding the relative association only represent 22.00% of the whole sample and reflect the extent to which financial results, gained according to the regulations in a certain financial reporting standards, display an association degree to the market values that is higher than the one gained by using another financial reporting standards. Within this study type, most analyses consider comparisons between the IFRS and the US GAAP.

Starting from Holthausen and Watts's (2001) classification, Figure 2 displays the association degree between the variable that indicates this classification and the *Year* variable.

Figure 2 – The distribution of the considered studies types according to Holthausen and Watts's (2001) classification between 2001 and 2013



Source: Own processing

According to the figure, the results show that that the studies regarding the marginal information content based on the event analysis can be found especially in 2002 and 2005. Studies regarding incremental associations are frequent mostly in 2002, 2003 and 2007. This situation emphasizes the need to identify the financial information in any period, which can be considered relevant to investors. The multitude of factors that change permanently and which influence the market profitableness or the share price determines the existence of studies regarding incremental associations. Many of these studies (Chen *et al*., 2002; Hanlon *et al*., 2003; Kallapur and Kwan, 2004) start from the Ohlson (1995) model. The nearness of the 2002 and 2003 financial exercises indicates the need, in that period, marked by financial scandals regarding frauds, to identify relevant financial information that investors can count on. In the case of the studies within the sample, the most important factors, through the eye of the influence they have on the market stock return or stock price are the information included in the profit and loss account – the earnings per share (Kothari and Shanken, 2001; Subramanyam and Venkatachalam, 2007); information that is specific to the balance sheet – the accounting value per share (Chen *et al*., 2002; Core *et al.*, 2003) the research and development expenditures (Core *et al*., 2003; Kimbrough, 2007; Ciftci and Cready, 2011); information specific to cash flows – cash flows from the operating provisions (Subramanyam and Venkatachalam, 2007; Kumar and Krishnan, 2008; Jones and Smith, 2011); factors regarding the corporate governance (Larcker *et al.*, 2007).

From the point of view of the studies regarding the relative association analysis, Figure 2 shows the presence during the last years of a trend regarding the comparisons between the relevance of the financial information obtained according to a financial reporting standard and the relevance of the information obtained by applying another financial reporting standard (Lang *et al.*, 2006; Song *et al.*, 2010; Barth *et al*., 2012). This is also supported by the growth of the number of countries where the IFRS are used and also the significant efforts regarding the diminishing of the differences between the main international standards.

From the point of view of the method that was used in the analyzed studies, in most of them, the multiple linear regression analysis is used, thus analyzing on one side, the coefficients corresponding to the analyzed factors, and on the other side, the value of the coefficient of determination. Yet, Fan and Wong (2002), Kallapur and Kwan (2004) and Kimbrough (2007) use the panel analysis to identify the existing link between certain factors and the stock return. Moreover, Altamuro *et al*. (2005) uses ANOVA to test the differences between two categories of companies, before and after the use of financial reporting standards.

From all the authors of the analyzed articles, Mary Barth represents the author with most of the articles, from this period, regarding the value relevance of financial information. Her studies are mainly based on differences between the main financial reporting standards, thus giving perspectives in the standards' regulation and improvement process.

Conclusions

Regarded as a problem of interest in the field of accounting and financial markets, value relevance concept raised the research interests, reflected by the number of studies published in journals recognized, and not only, but also by identifying, continuously, new research directions.

The need for scientific progress is based primarily on the knowledge the domain of interest, through literature and through the main ideas related to research. This knowledge will then determine the emergence of new ideas materialized through empirical, critical or literature review studies.

The results of this study reflect a continuing concern of research on the value relevance topic and, especially, of the empirical studies to the detriment of critical or literature review studies. This is due mainly to establish a conceptual framework with the emergence of the concept of value relevance. To assist investors, empirical studies have always sought new information which may be based in decision making process. As a consequence, the number of empirical studies regarding the significantly information with impact on the stock price or stock return has increased.

Globalization and the adoption of international accounting standards or new accounting regulations have led to relative association studies to identify the most relevant information provided by existing accounting rules.

Presenting the main research direction in the last decade, through statistical methods, though it has some limitations determined by the complexity of the issue regarding the relevance of the financial information, as well as by the impossibility to surprise all factors that have influence on the relevance and all discussion themes existing in the literature. This last limit is caused by the method of developing the sample, using only two reference journals. Choosing the journals also determines, in return, the impossibility to know the research directions regarding the emerging countries, such as Romania. Being two top journals, it is mainly based on the issue of the relevance of the financial information in states such as the USA or the United Kingdom. Yet, future directions in the case of Romania aim at approaching the similar subjects to the international ones, and, due to the fact that Romanian companies are mandated to use the IFRS starting with the 2012 financial exercise, if their securities are admitted for trading on a regulated market.

Acknowledgement

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TRADE ORIENTATION IN THE EU IN THE AFTERMATH OF THE FINANCIAL CRISIS

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Abstract: *The present paper aims to analyze the impact the economic crisis bursted out in the United States at the end of 2007 and quasi spreaded all over the world had on the (re) orientation of trade flows (exports) among European Union member states in general, and Romania in particular. As observation and analysis data tool we chose groupings, tabular and graphical representation. The analysis will be conducted at individual and group of countries levels. The main findings will show that although the geographic network of member states trade has been seriously shaken by the crisis, export flows orientatio remained quite similar to the period previous to economic decline. As for Romania, its exports prove to be influenced by the economic situation of the main European partners.*

Keywords: financial crisis; international trade; European Union; high-income economies; North-South trade flows
JEL Classification: F01; F10; F40; F41; F60

Introduction

There is a question trade literature is trying to answer to: whether the rise of international trade is the result of economic growth in recent decades or a consequence of trade tension reduction. The answers to this question are widely divided. On one hand, empirical studies show a strong positive relationship between economic growth (proxied predominantly byt he gross domestic product or GDP per capita indices) and the rise of international trade practiced by a particular state or region. On the other hand, the reduction or in some cases the tariff barriers elimination along with the decrease in transport costs have resulted in significant international trade growth rates that exceed by far the GDP growth rate of trading partners participating in transactions (Novy, 2013). To highlight these dynamics, many authors resort to empirical research instruments like gravity equation, starting with the supposition that bilateral trade is closely related to the country economic dimension and bilateral trade costs. This approach, however, has some drawbacks consisting in that the equation of gravity puts first the analysis of countries characteristics involved in international trade and the dyadic relations between them leaving out in the background the analysis of the international trade network (Benedictis and Tajoli, 2011). Thus, part of the literature dealing with the subject of international trade analysis highlights the relevance of the commercial network (network analysis) in order to focus

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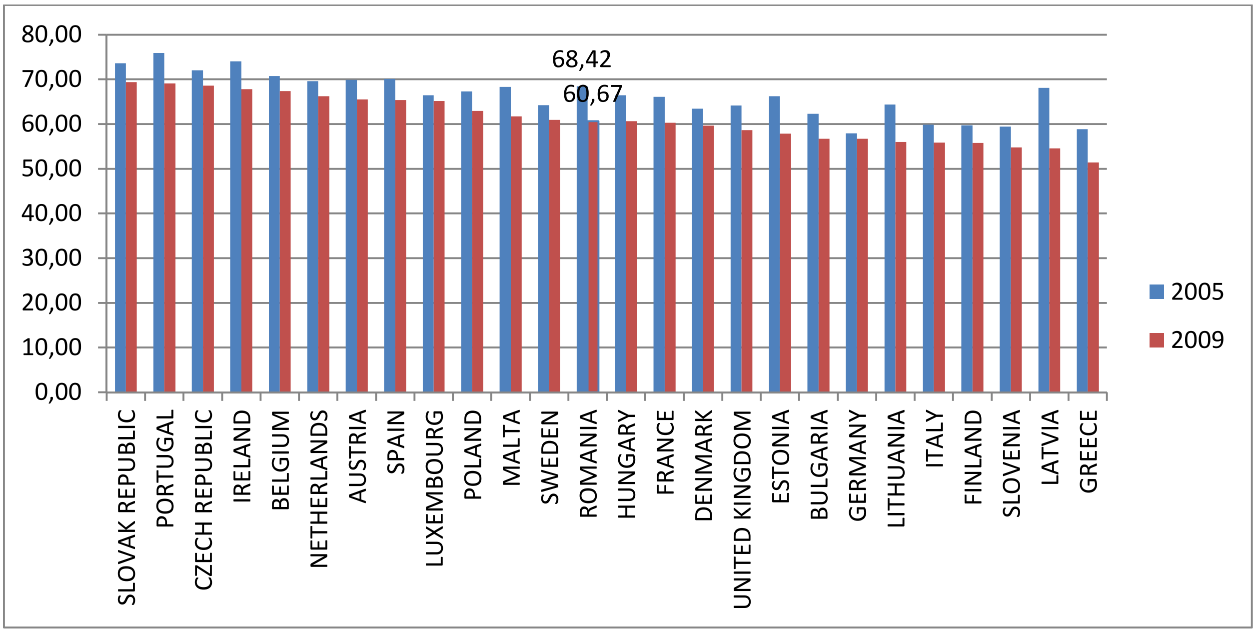
on systemic effects (e.g. trade creation effects, trade diversion, the influence of institutions and so on) (Kali and Reyes, 2010).

Instrumentation needed to perform a bipartite analysis (equation of gravity - network analysis) is wide and requires the setup of a starting point and a very solid theoretical framework. In this paper we opted for a trade off in order to outline a picture of the starting point in any future analysis and the context in which international trade is conducted both before and after the outbreak of the economic crisis. The analysis tool used is the observation and as data analysis approach we opted for groupings, tabular and, graphical representation. The analysis will be conducted at individual and group of countries levels. The selected sample consists of 26 EU countries (EU-27 excepting Cyprus) and the period of analysis between 2005 and 2010.

International trade within EU before and after the economic crisis burst

In order to capture the orientation of trade flows among EU member states we collected data on export volumes of major trading partners of the 26 countries analyzed. For database dimension purposes, we stopped on the top ten export markets for goods produced in the EU countries. Thus, a relevant index for highlighting the exports profile is the concentration degree among their trading partners.

Figure 1 - Top 10 trade partners of UE member states 2005,2009 (sum %)

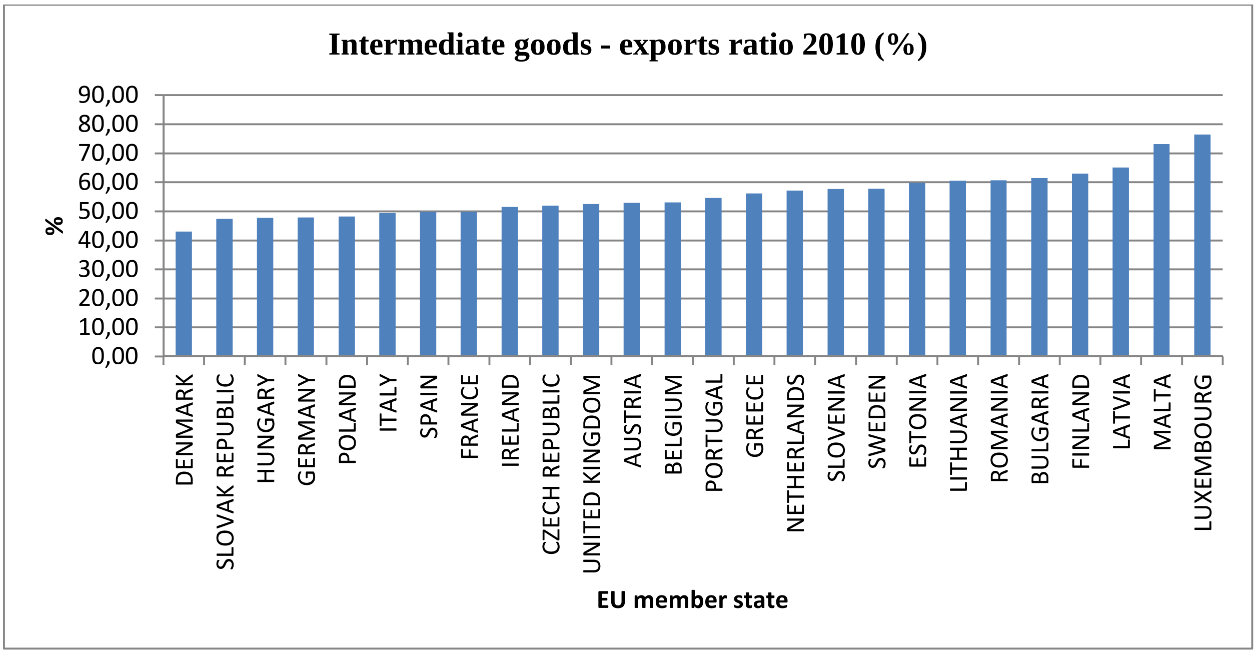


Source: Own calculation based on data from https://stats.oecd.org/

One can easily observe that in comparison to 2005, the concentration of exports in a smaller number of countries registered a noticeable decrease. The Slovak Republic was in 2009 among EU member states with a high concentration of exports in the first 10 commercial partners of 69.35% (73.59% compared to 2005). It was followed by Portugal and the Czech Republic. In contrast, the member states with a lower degree of export concentration in 2009 were represented by Slovenia (54.78%), Latvia (54.53%) and Greece (51.39%). What is also important to grasp is that, for example, taking the case of Slovakia, in 2005 and 2008, the top 10 trading partners were represented by the same countries. In 2009, only one major export market has been replaced (United States of America by Spain). The same note is valid for Germany, United Kingdom and France. Although they have been hit by the crisis the export of the EU member countries has not changed.

This status quo is explained in part by the export share of intermediate goods in total exports. A high percentage shows a more pronounced vertical integration and the existence of cross-border production chains, on the one hand, and a more pronounced interdependence among export partners, on the other hand.

Figure 2 – Exports of intermediate goods within EU (2010)



Source: Own calculation based on data from https://stats.oecd.org/

But the abovementioned interdependence does not explain the export performance of those countries. Although Luxembourg exports in 2010 accounted for 76.42% in intermediate goods, and Malta 73.21%, these two countries have different trade developments between 2009 and 2010. These different dynamics are caused by different economic situation among trading partners as well. Malta exports much of its output in the Asian and Southeast Asian countries (Singapore, China, Japan) and North America (Canada, Mexico) while Luxembourg exports are of much regional (Belgium, Ireland, the Netherlands, Switzerland).

Table 1 - Exports in the period 2005-2010 in the UE member states (changes %)

Country	2005	2006	2007	2008	2009	2010
Sweden	4.23	10.18	11.90	4.68	-29.55	22.01
Estonia	22.90	7.80	2.07	-0.47	-25.53	33.60
Finland	6.11	14.37	6.45	1.78	-25.07	11.06
Luxembourg	-2.08	9.90	-0.99	3.30	-21.60	7.37
Italy	3.59	8.48	7.12	-1.54	-18.44	12.36
Austria	6.41	7.21	9.93	0.29	-18.28	12.15
Slovenia	10.26	13.41	13.86	1.79	-16.58	11.96
Germany	7.56	12.80	8.47	2.31	-15.64	16.91
Greece	6.30	7.75	4.53	-3.02	-15.58	7.61
Denmark	5.63	5.17	8.60	7.75	-15.47	-0.83
Slovak Republic	9.55	22.07	15.10	3.61	-15.22	17.68
Portugal	-4.82	7.82	9.52	0.99	-14.83	3.01
Hungary	11.30	11.66	8.71	-0.89	-13.86	9.87
Latvia	20.26	6.38	11.60	2.36	-13.14	12.51
Bulgaria	10.50	11.30	11.84	9.48	-12.73	5.50
Lithuania	17.028	12.25	3.12	11.44	-12.63	17.394
France	3.07	6.75	1.48	-1.22	-12.40	10.62
Czech Republic	10.69	13.96	11.39	2.98	-11.79	16.36
Belgium	3.82	4.74	4.94	-2.18	-10.93	8.53
United Kingdom	8.20	13.67	-8.94	1.44	-10.55	9.66
Spain	1.06	6.63	7.49	-2.27	-10.41	15.28
Netherlands	6.19	8.70	6.62	1.42	-9.32	13.02
Malta	0.68	14.77	3.73	2.08	-8.41	17.36
Poland	7.96	14.64	9.12	7.05	**-6.81**	12.09
Ireland	0.98	-0.29	4.63	-0.29	**-5.37**	5.24
Romania	**5.29**	**7.15**	**7.26**	**3.84**	**-3.62**	**19.06**

Source: World Economic Outlook. For Malta and Lithuania we took into consideration the volum change in goods and services.

The importance of the economic situation (proxied by GDP) is shown below. Thus, an increasing trend in exports and the concentration of exports in a few export markets tends to be associated with a similar GDP dynamics. Why a higher concentration causes an increase in exports to GDP? Because the main trading partners consist predominantly of countries that face a very good economic stat quo, which may create a demand for a significant and sustainable volume of merchandise. The high export concentration is usually accompanied by a comparable volume intermediate goods exchange, which shows trade relations are conducted between partners in a context of increased vertical integration.

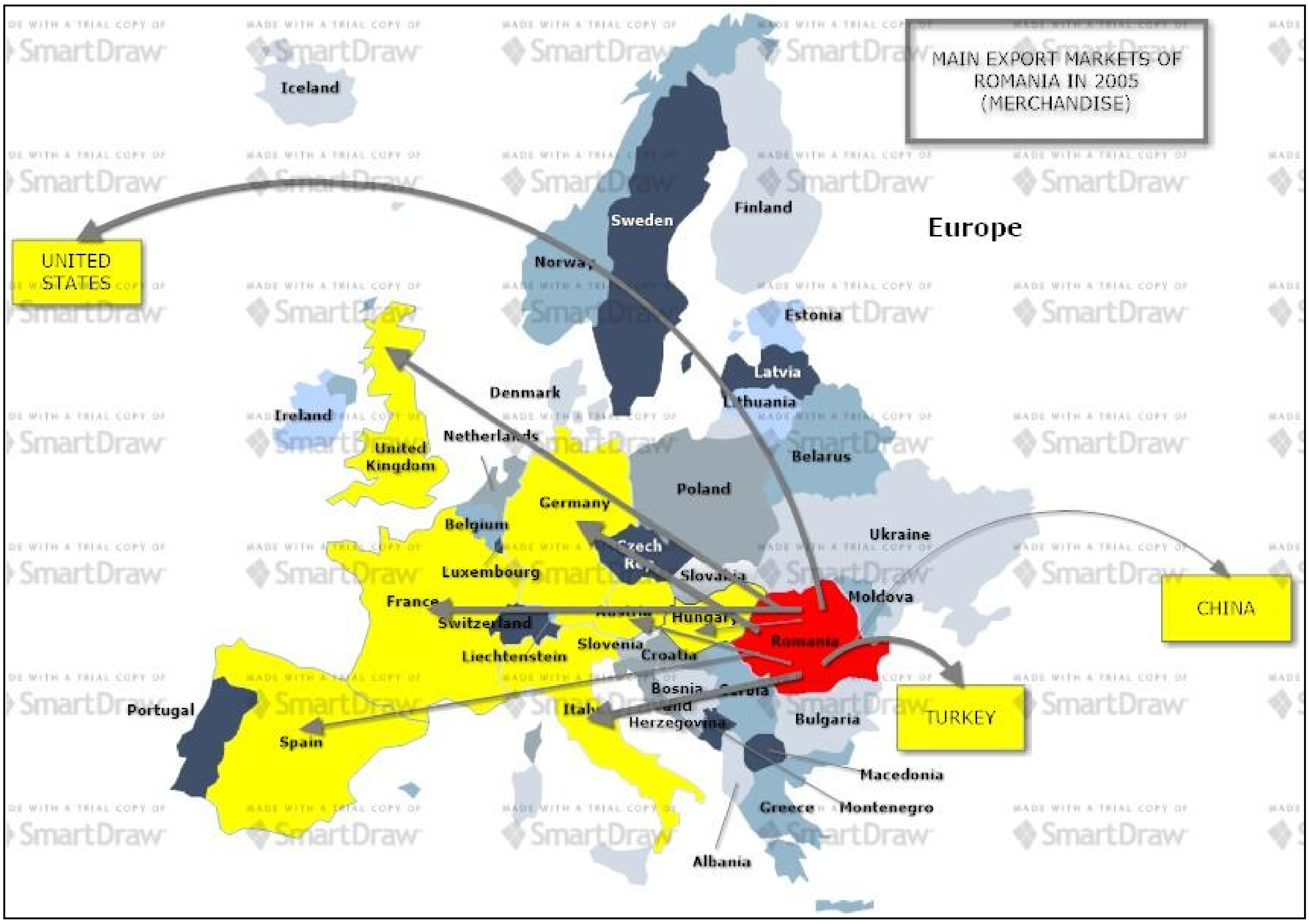
Table 2 – Regression of exports change and commercial partners (%) variables on GDP change (%)

R-sq: within = **0.5487**	Obs per group: min = 6					
between = 0.3097	avg = 6.0					
overall = 0.4898	max = 6					
	F(2,123) = 74.79					
corr(u_i, Xb) = -0.3398	Prob > F = 0.0000					
PIB	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
EXP	.2831138	.0317404	8.92	0.000	.2202857	.345942
MPART	.300103	.0833118	3.60	0.000	.1351925	.4650135
_cons	-18.75282	5.343398	-3.51	0.001	-29.32975	-8.175887
F test that all u_i=0:	F(24, 123) = 0.56	Prob > F = 0.9488				

Source: Own calculation using STATA.

In what concerns Romania in 2005 68.42% of our country exports were concentrated in the top 10 trading partners. In 2008, this percentage was 61.66% and approximately 60.67% in 2009.

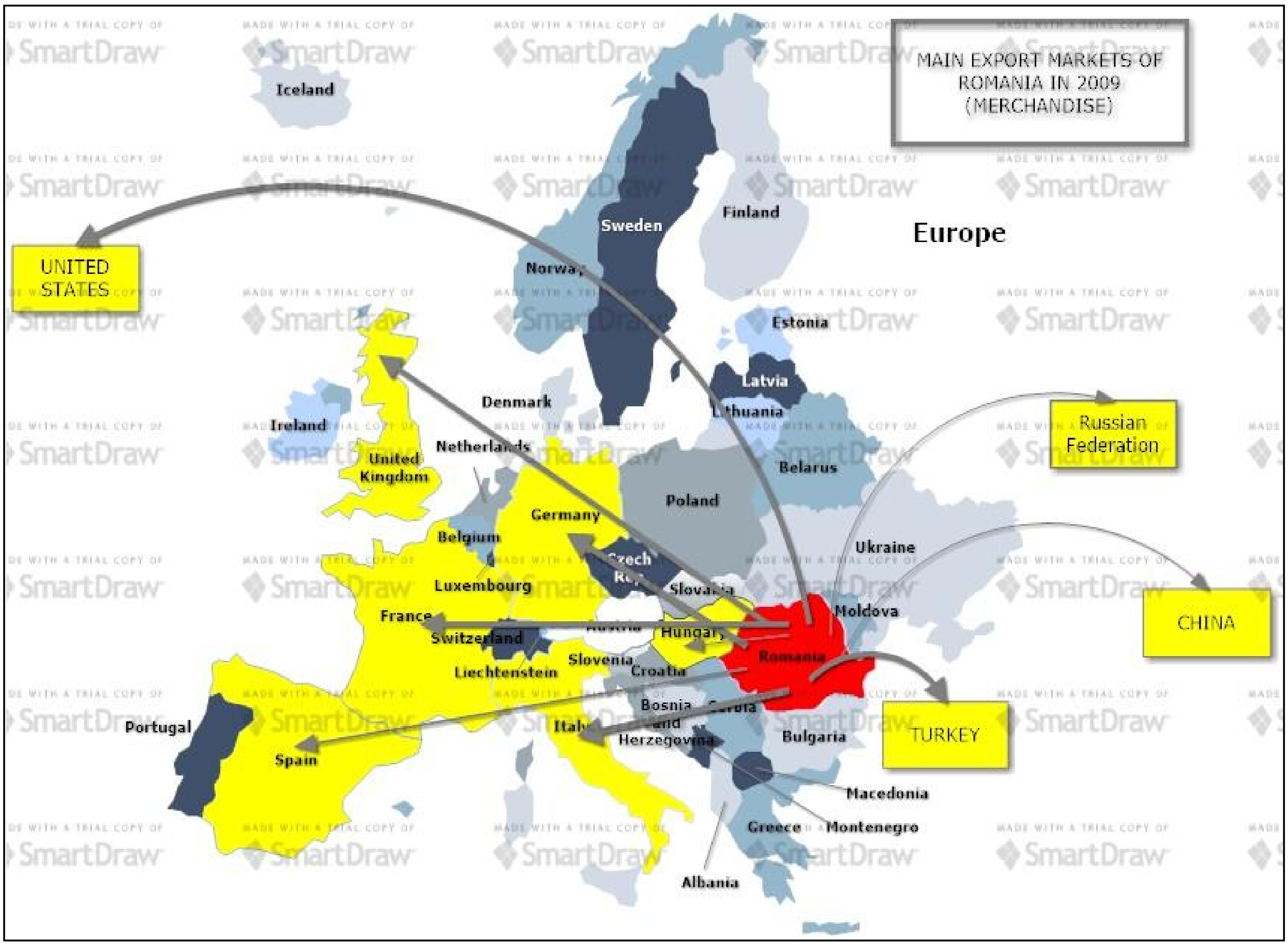
Figure 3 – Romania's main 10 export partners (2005)



Source: Own representation using SMARTDRAW

It can be notice that the decrease of export concentration among major trading partners and the annual evolution of exports went on a downward trend. Thus, the decrease in demand from the major export markets translated into a slowdown in export growth. This shows that, in the case of Romania, there was not a shift of trade flows to other outlets. Simply, trade partners with unfavorable economic growth caused a reduction of demand for exports thus implicitly causing an increase in the share of exports to less important markets

Figure 4 – Romania's main 10 export partners (2009)



Source: Own representation using SMARTDRAW

Moreover, in 2009 compared to 2005, a single export trading partner left the top 10 (Austria) and was replaced by the Russian Federation. The percentage share of 60.69% of exports of intermediate goods to major trading partners may explain why when the demand for our country goods decrease Romania could turn to other markets in order to maintain a trade positive growth rate. A high share of intermediate goods in total exports suggests a pronounced vertical integration of production between Romania and its trading partners which translates into a low degree of flexibility and potential portfolio diversification. Romania's dependence on its main trading partners is obvious. A decrease in the importers demand (proxied by a decreasing GDP) immediately reflects in the volume of output flows.

Conclusions

Economic integration in Europe seems to find confirmation even during harsh times. Economic relations between states are solid and long-termed. The Common Market induced visible trade creation effects (a large share of trade in the European Community is intra-regional). Removal of trade barriers within the union allowed the formation of cross-border production chains engaging both developed countries and emerging economies. The integration of production involves also a high degree of interdependence, making shocks to be transmitted rapidly from one partner to another. The global economic crisis bursted out in the United State in the late 2007 spreaded all over the world come to certify the above statement. It shook the whole network of trade. However, the orientation of trade flows recorded no significant changes. Although exports fell down among almost all countries under observation in 2009, there were not reported major trade flows reorientation patterns to other markets. In what concerns Romania, its exports dynamics turns out to be highly influenced by its main trading partners economic situation of (especially european trade partners).

Aknowledgements

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LEGAL STATUS OF FIRMS –MAIN CONTRIBUTORS TO ROMANIAN PUBLIC BUDGET

Mihaela TOFAN*

Abstract: *Public expenditure and collection of public resources generate interactions among different subjects of law, natural and legal persons, subjects of public law and private law. These interactions are the main object of the financial regulation, both at domestic and EU level. The legal relations are part of social relations and the companies legally formed are subject to the execution of the financial and fiscal liabilities, which is ensured by the state authority. Financial legal relations are distinguished from other legal relationships by the specific connection that occurs between the contributors and the state authority representative. The subjects involved and the position they have towards each other is subject to regulatory act and, if needed, court of law determination and control.*

In legal theory, the time of crises determine deep mutation in the legislation in force and the papers shows some of these changes and conclude on some aspects to be improved.

Keywords: firm; legal status; Romanian law
JEL Classification: K22; K34

Introduction

Commercial activities imply interactions among different subjects of public law and/or private law, natural and legal persons, from their interaction resulting liabilities in connection to financing public expenditure and insuring public financial resources. These interactions and the way the parties conduct their activities are the main purposes of financial regulations and rules of law.

In legal theory, the state authority executes social relations that fall under the law previsions, referring precisely to the form of expression for permitted or mandatory conduct that a person is entitled to have. Financial legal relations are distinguished among other type of social relationships by their specific features. The rules of tax law express the rights and obligations of the parties to fulfil the arrangements for the establishment, exercise and termination of an activity in connection with the public finance.

Financial relation regulation and tax law apply only in financial activities carried out by a subject of law, in connection with the state authority. In these situations, without exception, one of the subjects is the state representative with precise power of action in this field, represented by a public institution. This characteristic of financial and tax law relations can be analyzed in detail, based on the idea that the priority of the state itself aims at providing the framework that will ensure the financial resources for an organized life and welfare of the people. Moreover, the rule of law is

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adopted in order to serve the citizens and not to oppress them. In this context, the subordination of the individuals to the state authority may generate extensive discussions. (Balan, 1999, p.53)

However, it is impossible to conduct financial activities of the state as a prerogative of the state authority, unless it is expressly stated in the law in force the contributors to a specific fund and the public authority with collection responsibility for that particular fund.

1. The firm: the narrow and the wide sense of the concept

In order to conduct a commercial activity, the law requires a series of appropriate working tools, depending on the topic of trade (office furniture, raw materials, goods, equipments, patents etc.). All these goods used by the company to operate its activities form the physical support of the goodwill. In a concise definition, goodwill is a set of movable and immovable, tangible and intangible goods, which are affected by a business operator, in order to attract customers and hence to maximize the profit. (Stoica *et al.*, 2008)

The patrimony of a company does not have a uniform composition, each trader using the goods which best satisfy its business interests. Elements of goodwill may change according to the specific needs of the business, but some elements of goodwill are absolutely mandatory and it is not possible either to begin or to continue a business in their absence (e.g. the commercial name or the firm and the minimum capital required by law).

The firm, the concept usually describing the company or trade name, represents an identity mark of the entrepreneur on the market and among other traders. According to art. 30 of Law no. 26/1990 (the law ruling the activity of the Official Trade Register in Romania), the company should have a particular name, required for registration procedure and also mandatory for the exercise of its activities. If there is an individual trader, the name of its activity (the individual company's name) consists of the name of the trader entirely written, or his/he name and surname or his/her name and initials. (Tofan, 2012, p. 60)

For unlimited partnership, the name of the company must contain the name of at least one associated with the expression "partnership company", written in full.

A joint liability partnership company shall have the name of at least one general partner associations with the word "limited partnership", written in full.

A limited liability company or a company by shares has a name of its own, in order to distinguish it from the others companies on the specific market. This name will be accompanied by the words written entirely "limited liability company", or "LLC", or, as appropriate, "SA" (share company). Article 39 of Law no. 26/1990 provides that the Official Trade Register shall refuse registration of companies when there are no elements of contrast or in any case that may cause confusion with other legal registered companies' name.

The name of the registered companies for commercial activity is not available two years from the date of withdrawal of the company from the market. (Tofan *et al.,* 2014)As an intangible element of goodwill, the name of the company may be object of a commercial transaction, but only together with the whole activity of that firm.

If there is a breach of the company's name, for example when another company is registered with the same name, the first registered company may appeal to the court of law for violation of its properties and request the cancellation of the second registration, under the prevision of the art. 25, Law no. 26/1990. In any case, the owner of the infringed right may claim for damages under the civil code previsions.

The use of a company's name may lead to confusion with another company. Intentional use of a company's name by another trading company constitutes the offense of unfair competition (Article 5 of Law 11/1991, amended by Law no. 298/2001) and will attract criminal liability of the offender.

The meaning attributed to the concept of company name identified above belongs restricted to the narrow vision of the "firm" concept.

In the wider sense of the concept, the name of the company is the word that describes any activity and assets of the company, the attribute that distinguishes the company on the market and the title the company is allowed to operate with, in order to get profit. Benefits obtained by the legal entity, using its official name, are equally important to the public authorities' representatives, as the company is subject to taxation.

So, in the wider sense of the concept "firm", seen as the company's name, it overlaps the concept of taxpayers. The taxpayer and the tax receivable debtor may be any natural or legal person who owes taxes and other contributions to the public budget, in accordance with the tax laws.

2. Companies – contributors to national budget in Romanian legal framework

Due to the particular purpose envisaged at the time that they were formed, the state and its territorial administrative units, associations and foundations may not act as a trader. According to Romanian Civil Code, subjects of law are either individuals or legal entities. Legal entities with profit-oriented activities are considered traders and they may be organized as:

- Companies; their legal status is regulated by Law no. 31/1990 companies law; (Leaua, 2008, p. 168)

- Public National Companies (designated by RA, from the Romanian name “regii autonome”); they conduct business in areas of public interest and are established by government decision (when the interest that they are managing is important for the whole country, e.g. Coal National Company, Tobacco National Company), or by decision of the local counsel (when the interest is relevant on local level, e.g. Water and Waste Local Company)

- A special place in our legislation economic interest groups, whose legal status is regulated by Law no. 161/2003 on measures to ensure transparency in the exercise of public dignities, public functions and business environment, the prevention and punishment of corruption. Title V of this act provides the legal framework for two categories of groups: groups at national level and European groups.

Economic Interest Group (GIE) is regulated in the Romanian law, considering the first established group in France (order no. 67/821 of 23 September 1967). In French law, the activity of a GIE is very interesting for its members because it is a company in the proper sense and still it does not get taxable income. The French group of interest shares its benefits directly to its members, being taxed only at this time. Under Romanian law (art. 118), an economic interest group is an association of two or more natural or legal persons, established for a certain period of time, in order to facilitate or develop the economic activities of its members and to improve the results of that activity. (Angheni *et al.*, 2008)

Considering its specific activity and the interests of associate members, the Romanian group of economic interest may act as a commercial or noncommercial entities, with patrimonial purpose of their performed activities or without such intentions. The group activities may be related to the economic activities of its members or it may only be accessory to them.

The law provides a number of limitations imposed to activities carried out by a group of economic interest. They may perform the following operations:

a) to exercise, directly or indirectly, the activity of administration or supervision of the activities of its members, particularly in the areas of personnel, finance and investment ;

b) to hold shares, shares or interest, directly or indirectly, to one of the member companies; ownership of shares, shares or interest in the other company is permitted only to the extent that it is required to meet the objectives of the group and if it is on behalf of its members;

c) to employ more than 500 people;

d) to credit one of the members (in circumstances other than those expressly provided by Act no. 31/1990 on trading companies, republished, with subsequent amendments), the administrator or director of one of the members or a husband or close relatives to the fourth degree inclusive of the administrator or the director concerned. It may credit also if the lending operation implies civil or commercial actors to which one of the persons mentioned above is administrator or director or holds, alone or together with one of the persons mentioned above, a share of at least 20% of the subscribed capital;

e) to be used by a member for transmission of goods, in circumstances other than those expressly provided by Law no. 31/1990, republished, with subsequent amendments to and from the manager or company director or spouse, relatives up to the fourth degree of the administrator or the director concerned. Also it is allowed to transmit goods if the operation implies civil or commercial actors, to which one of the persons mentioned above is administrator or director or holds, alone or together with one of the persons mentioned above, a share of at least 20% of the subscribed capital with unless one of these companies is a subsidiary of the other;

f) to be a member of another group of European economic interest or economic interest group

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g) to issue shares, bonds or other securities .

Similarly to companies' legal status under Romanian law, economic interest group shall be established by agreement signed by all the members, who must be authenticated. Within 15 days of the authentication of agreement, the founders or managers or a representative group of them will require registration in the Official Trade Register in whose jurisdiction the group is based. The law provides in depth rules on the establishment, operation and closure of a GIE, rules that prove legal status trader of such businesses.

The law also regulates European economic interest group, or EEIG. According to art. 233 from the specific law, European economic interest group is the combination of two or more natural or legal persons, constituted for a fixed or indefinite period, in order to facilitate or develop the economic activity of its members and improving the results of that activity. There may be members of a European Economic Interest only:

a) companies or firms within the meaning of art. 165, paragraph 2 of the consolidated version of the Treaty establishing the European Community and other legal persons governed by public or private, that fulfill the following conditions:

-it was established under the laws of a Member State of the European Union ;

-it has its registered office, main center of leadership and management of statutory activity in a Member State of the European Union;

b) individuals engaged in industrial, commercial, craft, agricultural, providing or other commercial activities in a Member State of the European Union.

European Economic Interest Group shall be composed of not less than:

i. two companies, firms or other legal entities whose main centers of leadership and management of statutory activity are located in different Member States;

ii. two individuals, operating in different Member States;

iii. a company, a firm or other legal person whose principal place of leadership and management of statutory activity is in a Member State and a natural person whose principal activity in another Member State.

We note that European economic interest groups are not subject to the authorization provided in Decree-Law nr. 122/1990 for the authorization and operation of foreign economic organizations, which hold representative in Romania. Establishment of branches or subsidiaries in Romania by an EEIG will be subject to all the provisions relating to registration, indication and publishing documents and facts required for Romanian economic interest groups.

3. The legal status for individual contributors who perform commercial activities

The individuals who perform commercial activities are also contributors to the state budget, when they are considered traders and they gain profits. Individuals who have a merchant status must perform activities considered by law as having commercial features, as regularly as a habitual profession and with the intention of obtaining profit. The analysis of such situations should be done in detail, because often individuals are relying on their status as subjects without commercial facets, in order to limit debts to the state budget. As it is easy to guess, the tax law is stricter with the taxpayer than with the individuals who does not perform commercial activities.

Analyzing the legal framework, we synthesize that contributors are individuals who meet the following conditions:

a) A natural person who commits acts of trade, activities with the intention of gaining profit objectives. Acts of trade objectives are activities considered by law to be commercial because of their concrete specificity and regardless of who carries them. We should note that this situation is slightly outdated, as the list of such activities was included in the previsions of the Romanian Commercial Code, which is no longer in force. Still, we may establish the commercial character of an activity by comparing to another legal listing in force at the moment, for example, national economic activity code, database updated annually.

Commercial nature of the performed activity determines the liability of such subject of law not only to the trade and competition demands, but also to the tax law requirements.

b) Committing acts of trade occurs as a habitual profession;

The second condition for individuals to be considered trader refers to committing acts of trade professionally, a condition satisfied when this activity is a permanent occupation exercised by a person. Therefore, a person who accidentally makes a trade operation becomes merchant only at the moment when the operation becomes so frequent, so it characterizes a habitual profession (Angheni, 2013, p. XVII).

Professional character of the conduct of trade is a matter of fact, which in case of dispute between traders or in relation to bodies of state authority, may be proved by any means permitted by law. Romanian law system usually refers to evidence from witnesses, documents, presumptions and expertise. Commercial features of transactions come from a very wide range of evidences, the celerity of trade transactions necessarily assuming simplifying the procedures for taking evidence.

Character of a habitual profession implies the existence of two elements for each commercial operation committed by individuals: a fact (*factum*), which consists of systematic exercise and repeated acts of trade targets, and a psychological element (*animus*) that relate to intention to become a trader, i.e. to acquire a certain social condition or status.

c) Committing acts of trade takes place in its own name and not on another person's behalf.

The third condition ensures legal point of demarcation between the individual who acts as a trader for himself and the individual who does trade operation for other persons. In this later situation, there are persons used in business that have the capacity of an agent or a dealer representatives and they are not professionals of trade when committing a commercial activity.

The literature has discussed whether the cumulative fulfilment of the three conditions is sufficient or appropriate, some authors considering adding the legal capacity as a condition for becoming individual trader (Piperea, 2005, p. 211).

We appreciate that the proper exercise of rights and liabilities (legal capacity of individuals) may not be considered a special condition in this case, because it is implicit in each of the three conditions above. If an individual fails to full legal capacity, he cannot commit acts of trade, in his own benefit and as a profession.

Regarding the registration that the individual has to do previously to acting as a trader, it is an administrative act and the individual trader is obligated to do, under the sanction of fine and not under the penalty of prohibition from exercising acts of trade. Therefore, obtaining the registration number is not a requirement to become an individual trader, but a professional obligation.

We note that the acquisition of individual trader status does not take place in a very well established moment, in comparison with the legal status of a company, for which the moment of its valid status is precise. Thus,

- Companies are traders on the moment of their registration in the Official Trade Register;

- RAs are traders on their establishment by Government decision (RAs with national importance) or the Local Council disposition (RAs with local interest);

- GIE and EEIG are traders on setting up authentication of their agreement act.

On the contrary, the individual trader has its legal status when all the above three conditions are fulfilled. Merchant acquiring quality does not occur at a precise time. In case of disagreement on the legal status of a trader, it is necessary both to the bodies of state authority and to the bodies of the judiciary to take evidence on the activity and the qualities of the individual. Similarly to establishing the moment of acquiring the status of trader for a legal person, the evidence of the legal status of trader is different for individual trader and for legal persons.

To prove their individual trader status, the natural person shave to prove all the conditions needed to achieve that status (the three conditions presented above). The existence of the administrative authorization (the registration document) does not constitute proof of a trader. The use of the title of trader for an individual in his business correspondence, in connection with other people or in advertising material does not constitute proof of the legal status of the individual trader, unless other evidence in support can corroborate it.

On the contrary, for corporate legal status, merchant quality test is always done by documentary evidence. For companies, the sufficient proof of their legal status is the registration certificate, obtained after completing all the steps for setting up a company, according to the law in force. For RAs, the proof is the registration certificate or the government decision/local council disposition.

Once acquired a trader legal status, it attracts specific obligations, including the status of taxpayer, according to the law in force. These obligations remain until the termination of the activity of the trader.

For individual trader, the legal status ceases once the cumulative conditions of the legal establishment are no longer fulfilled. Since the intention to cease committing acts of trade can be temporary and can be resumed after a time, each particular case requires attentive investigation, to establish whether there is an intention to terminate the commercial activity or only to suspend it for a while. Loss of authorization to practice trade does not mean loss of the legal status of the individual trader.

If a trader commits no acts of trade for a certain period of time, evidence of lack of intention to continue trading is done. The mere cessation of activity temporarily cannot lead to the idea that the individual is no longer a dealer.

According to art. 222 of Law no. 31/1990, republished and amended, companies cease to be a trader by dissolution and liquidation. In fact, the entry into force of company dissolution does not automatically invalidate the quality of the trader. Legal personality of the company disappears with the last operation wound. However, for tax purposes, there is an important change of obligations when the company enters into insolvency, in comparison to the trader whose financial situation is theoretically stable. According to Law no. 85/2014 (Insolvency Code), trader insolvency situation is different in terms of fiscal responsibility, the law is more tolerant and provides a range of facilities.

Situations that could lead to the dissolution and liquidation of companies are numerous, from the agreement of associates, bankruptcy, end of the period for which the company was established, the realization of the object of activity or impossibility of it, and failure to conditions imposed by law to continue commercial activity.

3. Types of organization for individual trader's activity

Although conservative and traditionalist, the Romanian commercial law in force could not completely ignore the situation of individual traders, or the important place they have among the contributors to the state budget. The activities carried out professionally by individual traders often dress coat of practice that relate directly to making a profit and, therefore, their trade is deliberately unnoticed because of too large legal framework on this issue. In order to solve these cases and to attract more revenue to the state budget, Romanian law ought to outline new ways for providing control over income-generating activities for the individual, from the fiscal liability point of view. Although not comprehensive, we appreciate that rules for the individual enterprise activities, family enterprises and authorized individuals have limited results, because of possible tax evasion loopholes.

According to legal framework in force (Govern emergency ordinance no. 44/2008, amended, completed and republished in 2014), individual enterprise is an economic enterprise, unincorporated, organized by an individual entrepreneur; family enterprise is the economic enterprise, unincorporated, organized by an individual entrepreneur with his family and the authorized individual is a person who is authorized to carry out any form of economic activity permitted by law, mainly using its workforce.

Their legal status is slightly different, but the legal text allows individual entrepreneurs to choose the form that fits best their needs, depending on their specific activity and the context of achieving income (Cristea, 2008, p. 158).

In relation with this regulation, we note first of all the change of the establishment and authorization procedure. Thus, as noted above, the legal status of an individual trader is a fact and the registration is just a mandatory procedure in order to operate legally, an obligation that may attract administrative penalties (administrative fines). Art. 7 of GEO no. 44/2008 provides that individual enterprise, family business and authorized individuals are required to apply for registration in the

Official Trade Register before commencing business as freelancers, hereinafter PFA, family business and respectively individual enterprising. Considering the individual enterprise, the prevision of law in force is more accurate. The representative of a family enterprise must apply for registration and authorization before starting the business. If he does not make the request within 7 days after the conclusion of the procedure provided for the establishment of law, any member of the family business may apply for registration and authorization (Cod fiscal, 2014).

We note that this time the formality of registration in the Official Trade Register has influence on the setting up procedure itself. Demand for trade registration and authorization of the operation must be made within 15 days starting the date of conclusion of the agreement to form the family enterprise and in case of violation of the prescribed period, it is necessary to conclude a new agreement.

Legal regime regulating the activity of PFA states that such a subject of law may collaborate with other freelancers, sole proprietors and holders of individual enterprises or representatives of family enterprises, or other natural or legal persons, to carry out an economic activity, without changing his legal status. As a limitation of the sphere of activity, the law provides that the PFA can hire third parties for the work, which has been authorized, using labor contract. Also, a person can accumulate the quality of the individual authorized person and the quality of an employee of a third party that works, both in the same area or in another area of economic activity than the one the PFA is authorized for.

PFA is beneficiary in the public pension system and other social insurance rights and he/she is entitled to be insured under the social health insurance and unemployment insurance, as provided by law. These rights and obligations are expressly included in GEO no. 44/2008, indirectly explaining the fiscal liabilities of PFA. PFA operates using mainly his/her labor capacity and occupational training in the field of trade, which is authorized and registered. PFA may ask for changing the legal status, needing to obtain subsequent authorization as a private company, under the conditions imposed by law for this different legal status of business performance that is intended.

PFA is liable for his/her obligations with the assets affected to the specific trade and, in addition and in case of insolvency, with all his/her assets. PFA will be subject to the simplified procedure provided for by Law no. 85/2014 (Code of Insolvency).

As expressly permitted in GEO no. 44/2008, individual enterprise acquires legal status of trader through registration in the Official Trade Register. According to art. 23 of this act, the individual enterprises are considered trader, starting the date of their registration.

Individual enterprises shall not be considered an employee of third parties that he collaborates with, under the prevision of art. 24, even if collaboration is exclusive. Individual enterprise may aggregate and may draw an employment contract with a third party that works both in the same area and in another area of economic activity.

From the point of view of the fiscal liabilities, the holder of an individual enterprise is insured in the public pension and social security system and is entitled to be insured under the social health insurance and unemployment insurance. The person holding the individual enterprise is liable for his obligations with the assets affected to the trade activity, if it was created, and in addition, with his/her entire assets. In case of insolvency, the individual enterprise will be subject to the simplified procedure provided by Law no. 85/2014 (Code of Insolvency).

In case of death of the person who holds the individual enterprise, the heirs may continue the business, whether they express their intention through an authentic statement within six months from the date of the succession debate. When there are several heirs, they will appoint a representative to continue business as a family enterprise.

Family enterprise consists of two or more members of a family. Members of a family enterprise can be simultaneously PFA or holders of individual enterprises. Also, they can hire third parties as employees, even if they work in the same area or in another area of economic activity than the one who held the family enterprise. In their position of contributors to the budget, members of family enterprise are insured in the public pension system and other social insurance rights and are entitled to be insured in the social health insurance and unemployment insurance, as provided by law.

Exactly as PFA does, family enterprise may engage third parties using the employment contract, so the company can benefit from the work of its own employees, but indirectly through individual enterprises and/or PFA within it.

According to art. 29 of GEO no. 44/2008, the family enterprise is established by agreement of incorporation, signed by family members in writing, as a condition of validity. The agreement will stipulate the names and surnames of members and of the representative of the family enterprise, date of the participation of each member of the enterprise, conditions of participation, the percentage shares that will divide the net income of the business, the relationship between members and the family enterprises and the conditions for withdrawal. All these clauses are to be present in the agreement, under the penalty of nullity. Representative designated by the establishing agreement should manage the family enterprises interests, with a special mandate, respectively a document with private signature. This power of attorney is to be signed by those members of family enterprise who have legal capacity and legal representatives of those with limited capacity.

In order to perform the work for which it was authorized, the family enterprise, through its representative, may collaborate with other freelancers PFA, individual traders and holders of individual enterprises, representatives of family enterprises or other natural or legal persons. For performing a more efficient economic activity, the family enterprise is able to change its legal status, with the procedure provided by law.

Family enterprise has its own heritage and acquires legal personality through registration in the Official Trade Register. By agreement establishing the family enterprise, members may stipulate the establishment of a heritage of affectation or may set quotas for the participation of members of the heritage setting of affectation. If members must agree unanimously on the quotas, which may be different from those required for participation in the net income or loss of the enterprise.

Members of the family enterprises are the person from its registration in the Official Trade Register or they may be join lately. They are liable for the debts incurred by the company representative with the heritage of affectation, if it was created, and in addition, with the whole heritage corresponding to the rates of participation.

Decisions regarding the current management of the family enterprise are taken by the company representative, who acts by disposition of members of the family enterprise. Their decision on the activity shall be taken by simple majority of the members' consent.

Family enterprises will be terminated and therefore radiated from the trade register in the following cases: more than half of its members have died, more than half of the members of the entity require its termination or retired from the company. Application for cancellation, accompanied by a certified copy of the original documents, as applicable, shall be filed by any interested person, with the Office of Trade Register of the Court in which it was established.

If the members of a family enterprise have heritage of affectation or acquired goods, they share the rates provided for in the constitution agreement.

Conclusions

Regardless the type organization that a trader is choosing for his/her commercial activity, they are the main contributors to the Romanian public budget. In condition of global financial crises, the Romanian legislation suffered many changes, in order to determine the registration and authorization for every subject of law that gains benefits from commercial activity. The final target is to supervise these activities, in order to monitor the accomplishment of the fiscal liabilities and, if needed, in order to force them to comply with the fiscal law. Although quite large, the regulation in this respect still need improvements and the experience of the paste few years show some of the direction to follow.

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