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INTERCULTURAL ISSUES OF THE TOURIST OFFER

Cristina Elena ALBU*

”Studying culture without experiencing culture shock is like practicing swimming without experiencing water.”

Geert Hofstede

Abstract: *Tourism is an opportunity for people from different cultures to meet and interact, to exchange ideas, traditions and ways of thinking. In this industry it is very easy to judge a person just after taking an overall look and studying her general behavior. The aim of this article is to determine the intercultural issues that can show up during the tourist act, while people belonging to different cultures interact. The research method used for creating this article is documentary study. The tourist offer shall be adapted to different types of tourist, taking into consideration some aspects as tourists’ behavior, the type of tourism they prefer and, most of all, the culture they belong to and the culture of the people from the place they visit. Despite the immense diversity of our minds, there is a structure that can serve as a basis for mutual understanding.*

Keywords: tourist offer, interculturality, stereotypes, mental soft, cultural shock

JEL Classification: M19, Z190

Introduction

The world is full of confrontations between people, groups and nations who feel, think and behave differently. At the same time, these people, these groups and nations are faced with mutual problems that require cooperation to be resolved (Hofstede *et al.*, 2010, p.15).

Ecological, economic, political, military, health and climatic transformations do not stop to the national or regional borders. In order to solve these problems it is mandatory for the opinion leaders from many countries to cooperate. In turn, they need the support of large groups of followers to implement the decisions taken. Understanding the differences in the way these leaders and their supporters think, feel and act, is a condition for finding global viable solutions. One of the reasons that so many solutions are ineffective or cannot be implemented is that these differences of thinking were ignored. However, despite the immense diversity of our minds, there is a structure that could be used as a basis for mutual understanding.

We can say that this is happening and where tourism often see problems between the interaction between different people in terms of nationality, behavior, culture from which they come. Thus, in the offers’ design should consider issues such as tourist destination, the interaction between the local population and tourists (only if there is this iterative, because are some tourist destinations which isolates the local population from tourists just because they do not want the tourist to have a culture

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shock and change the impression of that destination), travel behavior of tourists (alone, with family, friends), forms of tourism (cultural tourism, religious tourism, business tourism, sport tourism etc.) and, not least, the culture from which the tourists belong.

1. Tourist Offer - General Aspects

Tourist offer is characterized by a variety of elements that are constantly changing. This change is determined by adjusting to tourists' requirements, reflecting the need for customization, in fact customization of offer's items (Manolescu, 2006, p. 72). From another perspective, the tourist offer of a country represents all the elements that can be valued in a certain period of time to stimulate the tourists' interest to purchase and consume certain products and tourism services (Butnaru, 2012, p.53). The tourist offer represents all the attractions that may cause tourists' interest, together with potential tourist establishments serving network (hotels, restaurants, infrastructure) focused on meeting the demand of potential tourists (Ferent, 2007, p. 69).

Considering the three definitions above, we conclude that the tourist offer should focus on:

- adjusting to tourists requirements;
- existence of elements of attraction for tourists;
- existence of a diversified material base (hotels, restaurants etc. of different classifications, to address to more categories of customers).

Tourism components can be classified as:

- *infrastructure*: it plays a key role because it can provide or restrict access to certain tourist areas. There are certain categories of tourists who refuse to travel, for example, in some rural tourist destinations because of the infrastructure deficiency.
- *accommodation*: it must be as diversified in terms of classification, in order to address all categories of tourists, depending on their income level or desired comfort level. Also, some tourists choose luxurious accommodation just to draw attention to their own image or to impress.
- *catering establishments*: include all kinds of places where tourists can purchase or consume meals or beverages. In recent years these have become very popular all-inclusive deals that provide different menus every day which could be adapted to customer preferences with all services provided, that means less stress for the client.
- *natural tourism potential*: includes those natural elements, landscapes, reserves, protected areas, which attract tourists to their destination – natural attractions plays sometimes a

decisive role in attracting tourists to a certain area; lack of them can cause the losing tourists' interest in that place (for example, the Danube Delta - the only delta in the world declared a biosphere reserve – wouldn't be visited annually by lots of foreign tourists if there were no unique elements of flora and fauna);

- *anthropic tourism potential*: all sights of interest reflects the cultural, historical, religious, ethnographic and folklore potential that attract tourists to a certain destination.

We can say that the tourist offer of a country, zone, destination or a company consists of: natural and human potential of the territory, production equipment for tourist services in the tourism facilities, material goods for tourist consumption, the number and qualification services specialized staff in serving tourists, the density and quality of the tourism infrastructure as well as general infrastructure available to tourists.

From another perspective, we can mention that the tourist offer consists of (Butnaru, 2012, p. 54):

- attractiveness of tourism heritage elements existing in a certain moment: they focus primarily on attracting tourist in a particular area or what the tourist wants (for example: the 3 "S": sea, sun, sand);
- services offer: it highlights elements of the existing heritage tourist attraction in the area. Without the services we couldn't talk about a tourism offer in its true sense.

The offer of tourism products and services are customized with a number of features such as:

- *complexity and heterogeneousness*: this refers to tangible and intangible elements for consumers to meet their needs.
- *seasonality* refers to the fact that the supply of products and services may be permanent or seasonal, in the latter case being conditioned by the existence of seasonal fluctuations; many tourists choose to travel off-season in some tourist destinations due to a very attractive, complex and advantageous financially offer.
- *transiency* is the fact that tourism services that are part of the tourist offer can be consumed to the extent of their provision, it exists as long as there is demand for tourism products and services.
- *stiffness* is determined by the size of available capacities of tourism structures, transforming the services' offer into capacities' offer.
- *inelasticity* stems from two characteristics of services, as immaterial, intangible and unable to storage services.

- *dynamic* means that some elements of tourism offer remain relatively unchanged for long periods of time (such as tourism potential natural and man-made), while others evolve both qualitatively and quantitatively.
- *unable standardization* is given by the diversity and heterogeneity of tourism services.
- *presence of substitution effect* refers to the fact that market tourism products and services, the offer may be substituted with another only if it satisfies tourists' motivations to consume. Currently, tourists are assailed by a wide range of travel offers that focus on a variety of tourist destinations very convenient from a financial standpoint.

Corresponding characteristics of tourism products and services offer can be visualized in the following figure.

Figure 1 – Characteristics of supply of tourism products and services



Source: Personal construction after Butnaru, G.I. (2012, p. 55)

2. Types of Tourists

In the tourism marketing there are some common following criteria for the classification of tourists: age, motivation, tourist behavior, lifestyle, revenue earmarked for tourism and nationality (Lupu *et al.*, 2010, pp. 5-12). There are two main segmentation criteria used in tourism:

- *sociological criteria*: these criteria relate to tourists' personal matters - age, sex, origin, religion, social status, profession, marital status, income, cultural level;
- *behavioral criteria in tourism* (travel habits): this refers to the tourist preferences regarding the type and destination of the trip, voyage reason / purpose of the visit, the degree of fidelity to a particular tourist destination, number and type of the regions visited, period of staying, costs structure, travel time, type of accommodation chosen, mode of transportation used, forms of tourism, forms of leisure in the the place of accomodation etc.

Following market research there were identified the following categories of tourists reflected in the table below (Coita *et al.*, 2008, pp. 88-91):

Table 1 – Tourists' type and their characteristics - I

Tourists' type	Characteristics
sedentary tourist-retired	<ul style="list-style-type: none"> ▪ its main motivations are primary - sea, sun, beach; ▪ income levels is low; ▪ during his stay seeks to preserve habits; ▪ attaches importance souvenirs as proof of making the voyage.
sedentary-mobile tourist	<ul style="list-style-type: none"> ▪ combines tourism with the rest of discovery; ▪ has a medium or high level of income; ▪ during his stay seeks to practice various sports; ▪ during the voyage is interested in contact with the local population and cultural sightseeing.
itinerant traveler	<ul style="list-style-type: none"> ▪ seeks, first, cultural and social escape; ▪ belongs to an elite high-income enabling him to travel; ▪ visits everything outlined in guidebooks; ▪ loves photography, folk activities and exotic souvenirs.
nomadic traveler	<ul style="list-style-type: none"> ▪ seeking direct contact with nature and the local population; ▪ has a high level of preparation (sometimes self).

Source: Personal construction after Coita *et al.* (2008, pp. 88-91)

American Plog has identified two psychological dimensions according to which tourists may vary: psychocentric tourists and allocentric tourists. Thus, psychocentric tourists have concerns especially as regards themselves, being fearful about the outside world, believing that they can not

control, while allocentric tourists are curious and very concerned about the outside world, being rather independent; they seek experiences and destinations.

Americans Nickerson and Ellis have combined psychocentric and allocentric features with introverted and extroverted individual features (Nickerson *et al.*, 1998, pp. 26-31). Introverts are quiet, reserved, cautious, based especially on their knowledge, not wanting to meet other people, they are studious, slow or do not hurry and have some special friends with whom are traveling. In contrast, extroverts are very big fans of fun, not very concerned about their safety, are spontaneous, love to meet other people and are able to easily establish relationships with foreigners; they feel very comfortable in group.

From the combination of those two psychological dimensions psychocentric - allocentric and introverted-extroverted, other authors have identified four suggestive categories of tourists: explorer, adventurous, guided and grouped (group addicted) whose features could be seen below (Jackson *et al.*, 2001, pp. 177-184):

Table 2 – Tourists’ type and their characteristics - II

Tourists’ type	Characteristics
Explorer	<ul style="list-style-type: none"> ▪ is flexible; ▪ he is organizing alone, is exclusive uncontrollably and avoid crowds; ▪ is quite silent group sets its own program;
Spontaneous Adventurous	<ul style="list-style-type: none"> ▪ innovative and curious in terms of cultural; ▪ traveling with friends or with the unknown tourists; ▪ loves to meet new people; ▪ not organized travel; ▪ avoid boredom by exploring different cultures, destinations and places.
Guided	<ul style="list-style-type: none"> ▪ is prone to isolation, likes to be alone or in a discrete group; ▪ sometimes travels only with husband / wife or a special friend; ▪ wants everything to be arranged to avoid additional costs; ▪ visits several times his favorite destinations.
The grouped (Group addicted)	<ul style="list-style-type: none"> ▪ traveling in a group or take part in other organized groups of people that they did not know before; ▪ attend places and activities that attract tourists; ▪ is a pretty active person looking crowded and action.

Source: Personal construction after Jackson *et al.* (2001, pp. 177-184)

So there are different types of tourists each characterized by specific features on how they travel, favourite destinations, the forms of tourism, the degree of socialization they want during the stay. Of course, these categories of tourists cannot be generalized or assigned directly, as each person is unique in its own way. Therefore, we often found tourists with features that might classify them into several types, not just in one.

3. Intercultural Issues in Tourism

The term *culture* is often used in everyday language in a specific way to describe a conceptual area rather diffuse using the common point of these concepts qualification culture as an abstract entity that involve a number of artifacts collectively-shared, behavioral patterns, values or other artificial concepts which, taken together, form a whole cultural ensemble (Gavreliuc, 2011, p. 24).

The word *culture* usually refers to something that is created by human intervention, or resulting from human activity: culture is grown in this way. Based on this definition, culture is often used to describe something refined or to evoke a number of valuable artifacts selected and cultivated by a society, focusing on the aspect of heritage (works of art, literary and artistic products of elite people, architecture monuments etc.).

At the basic level, the term *culture* was used to describe the operating mode of a group of people, like the one suggested by organizational culture, plus the common values which underlying operating mode. E.T.Hall regards culture as “an unconscious acquisition, comparing it with an invisible control mechanism operating in our thoughts”. According to the American anthropologist, we are becoming aware of this control mechanism only when challenged, for example, by exposure to a different culture. If we look at all these aspects, we can mention that tourism obviously facilitates a contact between people from different cultures. Also, tourism contributes to the personal development of each person, through the experiences they take part in various tourist destinations through contact with places full of history, traditions or special people who live their lives in a completely different way than tourists.

Therefore, more and more people are changing their way of thinking in terms of tourism, preferring to invest money in traveling, in visiting new cultures, than in acquisition of material things. As the old saying goes, "Do not tell me how educated you are, tell me how much you have travelled". Contact with other cultures are changing the way of tourist perception, contributing to spiritual enrichment. For this reason some people prefer to get rich through cultural journeys undertaken by

many destinations as possible, having these memories for life, than investing in tangible things that wear out and disappear with time.

From another perspective, culture is an unclear set of attitudes, beliefs, behavior norms, assumptions and core values that are shared by a group of people and influence the behavior of members and their own interpretation of meaning of the behavior of others (Spencer-Oatey, 2000, p. 4). Often our behavior copy a pattern from which we hardly give up, because we were thus taught. For this reason, behaviors different from ours are considered odd, not recommended, even harmful (not that the behaviors would be dangerous, but because they are not common to our minds).

There is a bilateral influence between man and culture: our culture shapes us but also we reshape our culture; we are not passive recipients, but build environment according to our interests and values (Gavreliuc, 2011, p. 28). In this sense, tourism has an important impact on some tourist destinations by contact between tourists and local people from different cultures. The presence of tourists for a long time in a certain tourist destination may cause that the local population gradually copy their behaviors; therefore occurs gradually changes in culture of the local population. Of course, this can take place in a long time and only if local culture is not deeply rooted (people who followed certain rules for lifetime and complied certain traditions will not easily give up their behavioral habits).

We can say in this regard that it is limited, often because of the to communication problems. This can be approached from four points of view:

- first, we consider communication differences that occur at the level of tourism enterprises (hotel, restaurant) when it is made up of employees who come from different cultures; in this regard, reaching common ground can be an extremely difficult process, each person is tempted to defend its point of view without giving up. For this reason, tourism agencies managers must have a flexible, open mind and be able to settle conflicts between employees, making them to respect each other and to find effective solutions together.
- second, we must take into account the communication problems that may arise between employees and tourists. From this perspective, people working in the tourism industry must be highly trained professionally in order to be able to satisfy the most demanding types of tourists. In tourism industry, the empathetic character of employees plays a crucial role in relation with the tourist, because only in this way the staff can understand what kind of services really wants the tourist.
- thirdly, we refer to possible incidents that may occur between tourists with different nationalities or religions who spend their holidays in a particular tourist destination. Their perception of the local population is totally different if we consider, for example, Romanian

tourists visiting Egypt and Moroccan tourists who choose the same tourist destination. In the first case, there will be a culture shock manifested mainly by the difference of religion that leaves its mark on Egyptian clothing (women who are almost entirely covered in Islam, which is considered taboo by most Orthodox countries). We can say that such stereotypes are born - by associating a country with how most people choose to dress in that country. In the second case, Moroccan tourists will feel comfortable in Egypt, mainly because they share the same religion, which contributes to better communication. Of course, we can analyze the perception of the local population on the two types of tourists, perception which will focus on religion rather than nationality.

- fourthly, the local population from a given tourist destination can help attract tourists or can send away tourists. When the local population is willing to live with tourists, to share its customs and traditions, to communicate with them, the tourists will be very pleased with the hospitality are treated. Otherwise, in the future, tourists will avoid that destination, especially when they feel they are not well regarded or treated in that area. This will have a negative financial impact on the destination, the lack of tourists means that low-income tourist area.

The manner of living and how to use time make the cultures be different. According to the American anthropologist Edward Hall cultures can be monochronic or polychronic. In monochronic cultures, man strives to do only one thing at a time, in situations where others feel the need to fulfill multiple tasks (Fayard, 2007, p. 15). It is said that Northern Europe would be stronger monochronic, while, as it descends to the south and to Latinity, polychronicity becomes the rule. Ignoring these specificities lead to misunderstandings and confusion, when everyone thinks that acting in the fairest way possible, from the point of view of their mono- or poly- mentality.

This is also reflected in the tourism industry where we find differences in behavior among tourists of different nationalities. For example, Europeans focus more on culture, on discovering new information, on visiting historical places. Americans are oriented on adventure tourism, sports tourism and to visit those sites to where legends are to be told. Asians (especially Chinese, Japanese and Koreans) put emphasis on capturing all the visited places, photographing almost everything. During the tour, each person has a specific purpose which it pursues: sightseeing, socializing with people from other countries, experiencing specific foods from the visited regions etc.

As it was mentioned above, in designing tourism products, companies must take into account what the tourist wants, the chosen tourist destination but also the tourist's culture and that of the country which is to be visited. There are some tourist destinations where a certain behavior may be considered

offensive and it can lead to serious repercussions for the tourist who was not informed in advance about the customs of that country (an example is Dubai, a luxury destination visited annually by over 6 million tourists- kissing in public is punishable by imprisonment followed by expulsion and restriction for visiting the country for life). Ignoring the specificity of others culture makes us blind and deaf both to them and to ourselves, to our own strength and weaknesses and to our abilities to learn and to improve. Therefore, it is very important for tourist to adapt to cultural customs of destination, to inform about dress and about behavior in public to avoid various troubles.

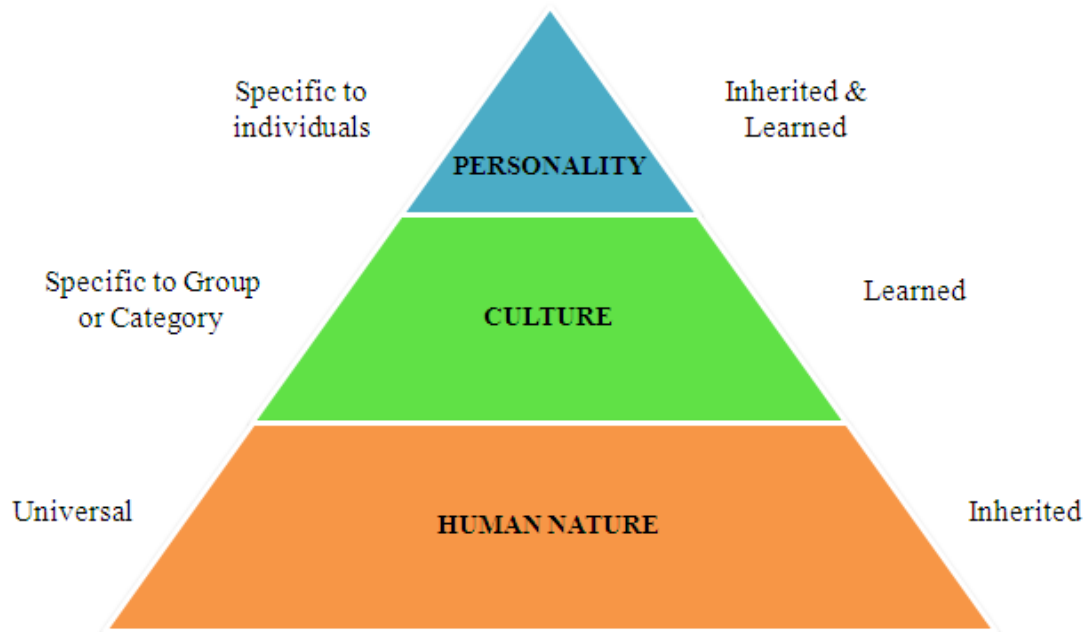
3.1. Mental Software

Each man carries patterns of thought, feeling and potential action learned during its life. Many of them were drawn from childhood because it is the most favorable period of learning and assimilation (Hofstede, 2010, p. 16).

Once printed these patterns of thinking, feeling and action in the mind of a man, he must unlearn them to be able to learn something different, and it's harder to unlearn than to learn for the first time. Such patterns of thought, feeling and action can be called *mental programs* or *mental software*, which means that the behavior of a man's is predetermined by his mental programs. He holds elementary ability to deviate from them and to react in a new, creative, destructive or unexpected way. Mental software only shows that reactions are probable and explicable, taking into account man's past.

The sources of mental programs of a man are in social environments where he grew and accumulated life experience. The programming begins in the family; it continues in close friends circles, at school, youth groups, at work and in the community in which he lives. Mental programs differ as much as social environments in which they were acquired. In social anthropology, culture includes all those patterns of thought, feeling and action; includes not only those activities that supposedly refine the spirit, but also ordinary and mundane aspects of everyday life: greeting, feeding, exposing or hiding feelings, keeping a physical distance from others etc.

Figure 2 – Three hierarchical levels of the mental software



Source: Personal construction after Hofstede, G. *et al.* (2012, p. 17)

Culture is always a collective phenomenon that is shared by people who live or have lived in the same social environment, where it was accustomed. Culture is made up of unwritten rules of the social game. Collective programming of the mind is what distinguishes the members of one group or one category from other people.

Culture is learned, it's not innate. It comes from the social environment, not from genes. Culture must be distinguished from human nature and personality of the individual, with no exact boundaries between nature and culture or between culture and personality.

Cultural experiences can be satisfactory and provide a win, but they can be also unpleasant and they even can generate stress and conflict. The more the demand for international tourism grows, the more the opportunities for contact with different cultures appears, but also a higher potential for cultural conflict. Consequently, there is a necessity for learning and understanding the impact of cultural differences on the tourists' behavior.

The study of cultural differences is important for the tourism industry for several reasons. First, the travel and tourism industry has increased internationalization in the last decade. Special attention was paid to cultural diversity and its importance in tourism. Contemporary tourism and increased mobility people exposed them to different cultural societies. It is imperative for the industry representatives working in international business, to understand the influence of national cultures on their customers to be competitive on the market. Many people are visiting foreign destinations to

experience different ways of life, traditions and customs. Tourism is also a part of the service industry where people from different nationalities meet - the quality of their interactions contribute to their vacation experiences and perceptions about the destinations visited.

This software helps us make mentally involuntary associations between destinations, people, customs, according to the way we are used to react on certain issues.

3.2. The Cultural Shock

Cultural shock refers to the emotional and intellectual experience that occurs at who, placed accidentally or through specific activities outside of its initially sociocultural context felt a strong discomfort and existential stress (Cucos, 2000, p. 131).

The experience of integration in a new environment can trigger different reactions:

- *frustration or rejection*: when you reach a certain tourist destination that is not comfortable, probably due to behavior or habits of the local population from that area.
- *riot and rage*: in some cases, tourists may feel angry when they realize that what they wanted to do during their stay is not possible, thus their stay is destroyed (these are the tourists who choose to spend their holidays at sea but the weather issues make this impossible).
- *generalized fears*: that feeling can occur, for example, when staying in a certain place some terrorist attacks or threats could appear and could make tourists be frightened and worried for their lives.
- *surprise or even fascination facing new cultural context*: some tourists are very open to everything that means interaction with new people in different places, wanting to know more about the culture of the destination visited, to be actively involved in local customs. These are people passionate about culture, people who want to know before judging.

There are several cultural shocks, starting in different registers of relations with each other:

- shocks of different perception of space and time;
- shocks due to the differences in role and relationship within the family group (the role of spouses, parental system, type of family, communication and control ways, attachment styles etc.);
- shocks of different types of sociability (hospitality, interchange features);
- shocks resulting from different reactivity to requesting aid;
- shocks due encounter with magic and religious rites and different beliefs;

- shocks due of different representations on cultural exchange.

Seen as limit experiences which induce powerful affective experiences, cultural shocks can contribute to a faster insertion into the society of destination (Gavreliuc, 2011, p. 58).

3.3. Stereotypes in Tourism

British writer Aldous Huxley noted that "To travel is to discover that everyone views are wrong about other countries." This is closely related to stereotypes.

A stereotype is a cognitive generalization of a particular social group bringing together members of a group with a specific attribute. These cognitive associations can form anytime they need without relying on a specific culture (Miller *et al.*, 2012, p. 1364).

A stereotype is a set of images necessary to meet the information issued by our environment. These are determined by the information we receive from the environment, as a mean of ordering and simplification of the reality in which we live. It is much easier to generalize and to automatically assign a number of characteristics to a person belonging to a particular group, rather than to treat it as an individual and to try to know her.

In tourism, stereotypes are used to describe tourists and locals. Stereotypes can influence perceptions of tourists and hosts that they have about each other. Positive stereotypes can attract tourists, while that the negative stereotypes can remove them. (Reisinger, 2009, pp. 192-194).

Stereotypes allow us to distinguish different categories of tourists, directing the interaction between hosts and tourists, explaining thus their behavior. In many destinations, residents have developed specific stereotypes of tourists by nationality. For example, American tourists are stereotyped as being cautious, calculated, practical and careful with money and French and Italian tourists have high demands.

People from different cultures could do or buy the same things or travel to the same destination for various reasons. For example, Chinese and Germans traveling to Thailand for various reasons: Chinese visiting Thailand for business / meetings, while Germans prefer relaxing in this country.

If only the stereotypes appeared and then sat quietly in our minds, it would be absolutely no problem. Stereotypes are not just some ideas that our mind comes to possess; they are ideas that, once formed, reach to possess our mind. In fact, the main reason that scientists devote so much attention to these concepts is that their functioning has often negative social consequences. (Cernat, 2005, p. 143).

When studying the functioning of stereotypes, psychologists are interested primarily in how these mental constructs affect our interactions with members of stereotyped groups. Researchers have identified the following steps which mark such events:

- categorial identification - this step is not necessarily required;
- activation of stereotypes: for example, observing of persons of a certain race or color is their activation of stereotypes, often only for individuals who are not in that category.
- application of stereotypes: since stereotype was activated, the behavioral change towards that person starts; this behavior may reflect repulsion, avoiding contact etc.
- correcting stereotypes: stereotypical concepts can activate social groups, especially when these categories are prototypical for that behavior.

Contact with the person from the stereotyped group may produce, once the person is identified as belonging to the that class, group stereotypes associated to it come into the mind, and our impression of the person is influenced by stereotypes activated and possibly corrected later (you can not judge people only by appearances). Stereotypes can be corrected first of all, through information and by knowing and understanding each other's culture.

When tourists and hosts will recognize and accept each others' uniqueness and individual differences, then they will be less reluctant to follow common patterns of behavior and thinking. They will be able to create their own ideas, without taking into account the group'/culture's ideas from which they belong to, they will be more careful when they are talking with others from other cultures, they will be encouraged to listen carefully, to study, analyze and evaluate the perceptions of each other. Thus the intercultural communication will be effective.

Conclusions

Contemporary tourism and increased mobility exposed people to different cultural societies. It is imperative for tourism representatives working in international business, to understand the influence of national cultures on their customers to be competitive in the market. Many people visit foreign destinations to experience different ways of life, traditions and customs.

Nowadays it is characteristic to human nature to categorize people, products and brands in different stereotypes. People are stereotyped because of race, ethnicity, sexual orientation, gender and even the types of products they buy or the clothes they wear. Stereotyping should not be used because it is wrong to assign an individual's personality, opinions based on their appearance, or clothing or

products they buy. Even if stereotyping is not something recommended by society, people still do that and make superficial observations.

Many cultural mistakes can be avoided if the tourists, locals and firms are made aware of the cultural differences between them. Since the quality of social contact between customers and employees influence customer perception of service quality and satisfaction in terms of product, representatives of the tourism and hospitality should pay more attention to cultural differences administration of cultural differences in interpersonal relations between suppliers and customers. Being aware of cultural differences and learning how to cope and manage, operators will use this key to create a developed tourism market.

Culture offers tourists the opportunity to experience a different nation, thereby contributing to the economy of that community. However, tourism can affect the location and its inhabitants by adopting a new lifestyle and assimilation of different features in order to live together with foreign tourists who invade their territory.

Tourism can also help to close two peoples, cultures, religions and traditions. But there may be situations where extreme differences of wealth, lifestyle, concepts, causing resentment on both sides, resulting in certain stereotypes. Therefore, it is imperative that these things should be taken into account when making a tourist offer for each category of tourist, whether it comes from the same country, different cultures, different countries etc.

Acknowledgement

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MEASURES OF CORE INFLATION USED BY THE NATIONAL BANK OF ROMANIA

Ionut - Cristian BACIU*

Abstract: *The inflationary process has become a phenomenon that has a significant influence on society in general and it is therefore important to be managed in an efficient manner. The objective of this study is to analyze the core inflation measures in Romania, after the adoption of direct inflation targeting regime in August 2005. In order to identify the causal link between the core inflation measures and inflation quantified by the Consumer Price Index (CPI), the Granger causality test is used. The study results indicate that only on the short-term the CORE 1 inflation (calculated using the Consumer Price Index from which the administered prices are eliminated) has influence on the total inflation, among the other core inflation measures and total inflation rate, the statistical relationships being insignificant.*

Keywords: core inflation, Consumer Price Index, Granger causality test

JEL Classification: C22, E31

Introduction

After 1990, most central banks from the European Union have adopted the direct inflation targeting strategy that has as main objective to maintain price stability. To meet this goal, we first need to measure the phenomenon by means of indices, which are intended to record, as accurately as possible, the price changes that people notice over a period of time.

The main categories of price dynamics measurement indices in an economy are: Consumer Price Index (CPI), Producer Price Index (CPI), Export and Import Price Index (IPE and IPI). The indices are used to measure the purchasing power of the currency in various categories of transactions involving goods and services.

Based on these, central banks and governments adopt measures for the monetary and fiscal policy of a state. In the direct inflation targeting regime, the Consumer Price Index (CPI) is the most widely used index in terms of availability. Production Price Index comprises the total production, including individual consumption and value added, and is useful in analyzing the trading price of the first stage.

The Central Bank of a country, through the decisions taken, cannot fully control the inflationary phenomenon, because there is an inflation component that is influenced by shocks on the aggregate offer.

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The structure of the article is as follows: section 1 presents the main definitions of core inflation from the specialized literature, and in section 2 a comparison between the structure of the consumer basket in Romania and the euro area is performed, as well as the highlight of the core inflation measures in Romania. Based on Granger causality test results, one notices the power of predictability of core inflation measures for the CPI inflation. The last part presents the conclusions of the study.

1. Literature review

In the specialized literature, it is generally accepted that in the short term, the inflation rate may be influenced by shocks produced outside the control of the monetary authority (the variation in administered prices and taxes, evolution of the weather conditions on agricultural production, oil price variation on the international market). For a more efficient control of the phenomenon, the central bank analyzes the total inflation by dividing it into a core component (*core inflation*) and a transitory component. Through the adopted monetary policy measures, the central bank influences the dynamics of the core inflation (Bilke and Stracca, 2008; Constantinescu, 2007; Mishkin, 2007; Bullard, 2011).

The term "core inflation" was first defined in 1980 by Otto Eckstein, who divided inflation into three components: a core component reflecting the persistent sources of inflationary pressures (π^s) a component that is affected by shock effects of changes in the food prices, energy, taxes and charges (π_s) and an inflation component through demand (π^d) (Dolmas and Wynne, 2008, p. 3):

$$\pi = \pi^c + \pi^d + \pi^s$$

After 1990, the first major studies belonged to Bryan and Pike (1991) who proposed using the average consumer price changes as a measure of core inflation. The development of the concept of core inflation was determined by the adoption of direct inflation targeting regime in most countries, the primary objective of monetary policy becoming to ensure and maintain price stability. The specialized literature offers a wide range of approaches to *core inflation*. Certain research focuses on the theoretical approach, taking into account the basic determinants of the core inflation and other studies address the methods for measuring core inflation.

Roger (1997) emphasized the main criteria for selecting the optimal method for measuring core inflation:

- the measure should not be the subject of frequent reviews;
- high credibility and accessibility of understanding by the general public;
- the measure must not provide false signals that would prevent achieving price stability.

The problem of the separation of the persistent sources from the transitional ones is often in the attention of the central banks. For example, a late reaction to the onset of the inflationary pressures may lead to a sustained increase in inflation in the future, while an over-reaction to a temporary increase in price can lead to an unjustified slowdown and a possible decline of the economic activity. Change in administered prices and taxes, the production of international oil market shocks are reversible and do not affect inflation anticipations (Dias, 2010).

According to the research performed by Wynne (2008) and Crone *et al.* (2011) there is a variety of core inflation measures that are built using either the statistical approach or the approach based on an econometric model. In most analyzes core inflation measures are used by performing a statistical approach because they can be more easily explained to the general public, ensuring a greater transparency in the conduct of the monetary policy.

The most widely used method to estimate core inflation is the exclusion method, which involves removing certain categories of goods and services that are found in the consumer basket, but which are influenced by various transitory shocks. The energy price and unprocessed food prices are considered highly volatile and are excluded from the calculation of the core inflation.

A negative aspect of the measures obtained by exclusion is the possibility of omitting important information on core inflation by entirely isolating certain price categories. The exclusion is based on past information concerning the related volatility, and thus the measurement of the core inflation will be determined in the future based on this data.

As an alternative to the core inflation measures that eliminate some subgroups of products, the *trimmed mean* method was proposed, which means a statistical distribution of the inflation rate, every month (Brischetto and Richards, 2007; Bryan, 2007). Simultaneously, the lowest and highest price changes variations of the goods in the consumer basket are eliminated. Then, the average of the remaining distribution, which represents the core inflation measure itself, is determined. The *trimmed mean* method has the disadvantage that it eliminates goods with the prices that have the highest deviation from the average distribution.

This disadvantage can be eliminated by using an Edgeworth type index, which gives an importance coefficient to each component exhibiting high volatility. Thus, the components with high price variations will be associated with low shares.

Another statistical method is the *weighted mean*, through which the shares related to the prices of the considered statistical distribution, starting from the highest price fluctuations, calculating the inflation rate for which the sum of the shares is 50%.

The criteria most commonly used to assess the core inflation measures are: ease of design, predictability power on different time horizons, insofar as they seek the best the trend inflation (Faust and Wright, 2011).

In conclusion, central banks use, in order to control the inflationary phenomenon, both the consumer price index as well as various core inflation measures in order to analyze price shocks and to optimize monetary policy decisions.

2. Inflation measurement and consumer's perception concerning the inflationary phenomenon

Consumer price indices measure the price changes of the goods and of the fees for the services used by the population in the current period compared with the previous period, also called reference period.

Consumer price indices are used as a means of estimating the average variation of the prices of the goods and services purchased by the population; they allow us to measure inflation in the sphere of consumption and to determine the purchasing power of incomes, wages. Also, they have a role in the calculation of real interest and in establishing social protection measures.

Folkertsma and Hubrich (2001), in their study, define consumer price index as an index of the "cost of living", which quantifies how much a consumer has spent on consumer goods in the current period, compared to the base period, in order to maintain the same standard of living.

The easiest way of calculating a price index is using the fixed base one, obtained from the ratio of the two values calculated for the same amount, but using different prices for the two periods compared (0 - base period and 1 - for the current period) (Anghelache *et al.*, 2012, p. 60):

$$IPC = \frac{\sum p_{i1} q_{i0}}{\sum p_{i0} q_{i0}} \text{ (Laspeyres index - keeps the shares in the base period)}$$

$$IPC = \frac{\sum p_{i1} q_{i1}}{\sum p_{i0} q_{i1}} \text{ (Paasche index - keeps the shares in the current period)}$$

where: p_i represents the prices of the goods and services bought during the base period (p_{i0}), respectively during the current period (p_{i1})

q_{i0} represents the quantities bought during the base period

q_{i1} represents the quantities bought during the current period

One can notice that in the case of the Paasche index the quantities of goods and services purchased are updated. The inflation rate calculated with the help of the Laspeyres index tends to be

higher because it does not take into account the ability of a household to reduce the consumption of products whose prices rise very quickly (Stendel, 1997).

Based on price indices other indicators such as inflation rate, the average annual inflation, because central banks may issue inflation target, are determined.

Next, we will present the main features of the two consumer prices indices calculated for Romania.

2.1. The Harmonised Index of Consumer Prices (HICP)

The Harmonised Index of Consumer Prices (HICP) is used to measure inflation in the European Union and is calculated by Eurostat, based on a harmonized methodology for all Member States. This index is particularly important because the definition of price stability in the euro area is made based on the value of the HICP. Also, by using HICP one may assess whether a country is ready to join the euro area (the convergence criterion), making a comparison between the inflation rates of the European Union countries.

The index includes the expenses of the households on the territory of a State, including both resident and non-resident households. HICP is a Laspeyres-type fixed base index, using the COICOP classification (Classification of Individual Consumption According to Purpose) in order to make comparisons between the Member States. The index is composed of 12 divisions consisting of 39 groups and 93 classes of goods and services.

From table 1, it can be seen that the divisions “Housing, water, electricity, gas and other fuels”, “Food and beverages” and “Transport” have significant shares of over 15% each.

Table 1 - Expenditure weights included in the Harmonised Index of Consumer Prices for the Euro area

Categories	Euro area
Food and beverages	15.7%
Alcohol, tobacco	4.0 %
Clothing, shoes	6.3%
Housing, water, electricity, gas and other fuels	16.3%
Furnishing, household equipment and routine maintenance of the house	6.6%
Health	4.3%
Transport	15.2%
Communication	3.0%
Recreation, culture	9.4 %
Education	1.0 %
Restaurants, hotels	9.1%
Miscellaneous	8.6%

Source: European Central Bank

HICP quantifies the changes taking place at the level of the goods and services prices traded within a country in the European Union, in the European Economic Area as well as for the acceding states to the European Union. The share of the necessary coefficients in order to calculate HICP is determined by the structure of the expenditures incurred by both residents and nonresidents.

In calculating the HICP the state taxes owed, the interest and fees of the loans granted are excluded, but the value added tax on the goods and services purchased by the buyer is included.

In order to obtain comparable results, the European Union countries have implemented common rules for the calculation of the Harmonised Index of Consumer Prices. For the euro area countries, the index is used for the adoption of monetary policy measures.

2.2. The Characteristics of the Consumer Price Index in Romania

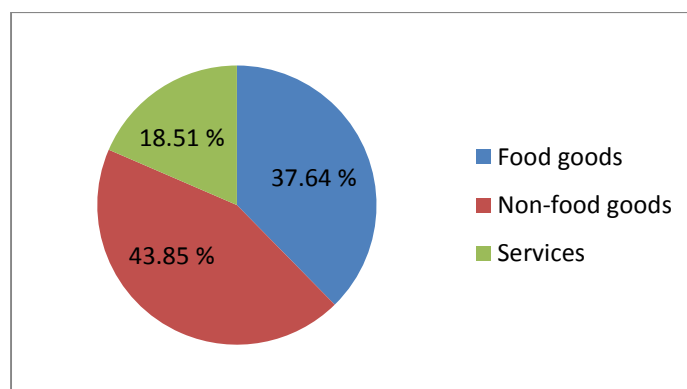
The Consumer Price Index at a national level is used for the economic analysis, for the establishment of the monetary and fiscal policy decisions, for indexing the commercial contracts, benefits and financial instruments. The CPI calculation is based on the structure of consumer expenses of only residents, made in the country or abroad.

Starting with 1997, the National Statistics Institute sends to Eurostat the HICP data set needed for the calculation of HICP for Romania. As I mentioned, the two indices are calculated simultaneously because each of them serve different objectives. Between the CPI calculated according to the national definition and the HICP determined based on a harmonized approach are the following differences:

- consumption expenses covered by HICP are made by residents/non-residents compared to national CPI, which reflects the evolution of the goods and services prices purchased only by residents, whether they are made within the country or abroad;
- the national Statistical Institutes in some countries use different ways of calculating the CPI index according to the national definition;
- expenses for health care, social security and education are included in the HICP inflation measure. The harmonized treatment of these expenses within HICP has been a major achievement;
- different approaches to the introduction of new categories of products in the consumer basket, their share, the change in the product quality do exist.

The Household Budget Survey is performed each year and it provides information about the situation and the time evolution of individuals and households to which they belong. Based on data taken from this investigation, the shares used for the CPI calculation are obtained; they result from of average monthly expenses structure made by a household for the purchase of goods and public service that are needed. Given the characteristics of the survey, at the beginning of each year t the shares resulted from the structure of the year $t-2$ expenses are available.

Figure 1 - The share of the aggregation levels corresponding to the national Consumer Price Index



Source: National Institute of Statistics

For the calculation of the national CPI, 3 levels of aggregation are used*:

- group of food products comprised of 54 items and 360 varieties;
- group of non- food products comprised of 112 items and 947 varieties;
- group of services comprised of 56 items and 423 varieties.

In what concerns the shares of the 3 groups in CPI, one may notice that the group of non-food products has the highest rate, while services account for only 18.51% of the total.

Table 2 - Expenditure weights included in the national Consumer Price Index for Romania

Categories	Romania
Food and beverages	31.0%
Alcohol, tobacco	6.4%
Clothing, shoes	5.0%
Housing, water, electricity, gas and other fuels	11.3%
Furnishing, household equipment and routine maintenance of the house	4.7%
Health	7.3%
Transport	12.4%
Communication	5.8%
Recreation, culture	5.9%
Education	2.7%
Restaurants, hotels	3.1%
Miscellaneous	4.0%

Source: European Central Bank

If we make a comparison between the shares of the 12 divisions in the composition of HICP in Romania and the "European basket" from the euro area (Table 1), one may notice that the share of the group "Food and non-alcoholic beverages" is 31% versus 15.7% for share of the euro area. Other significant differences are found in the divisions "Restaurants and hotels", "Transport" and "Housing maintenance, water, electricity, gas and other fuels". These shares are consistent with the specific consumption in Romania.

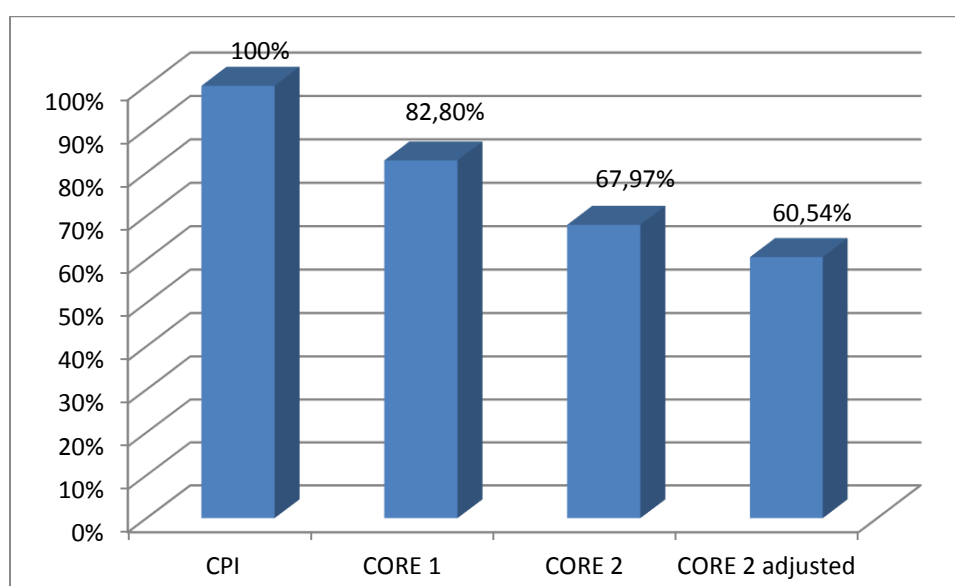
It may be noted that in Romania, a greater amount of food goods and energy goods is purchased, compared with the euro area average. Some of these prices are extremely volatile, which strongly influences the dynamics of inflation and the Central Bank has a difficult task in controlling the phenomenon. Also, the services represent, in Romania, only 18.51% of the HICP structure compared to 40% in the euro area.

* ***(2007). The comparative analysis between national and harmonized index of consumer prices for Romania. Analyses of the National Bank of Romania, in February, p. 2.

3. Core inflation measures in Romania

In order to obtain core inflation we use the exclusion method that requires the removal from the consumption basket of the products with administered prices (the CORE 1 measure is obtained), with prices that are characterized by extremely high volatility (the CORE 2 measure is obtained) and those influenced by changes of the tax regime such as changes in excise duties or indirect taxes (the CORE 2 adjusted measure is obtained). A special attention is given to the CORE 2 adjusted measure of the core inflation because it is influenced only by the decisions taken by the central bank.

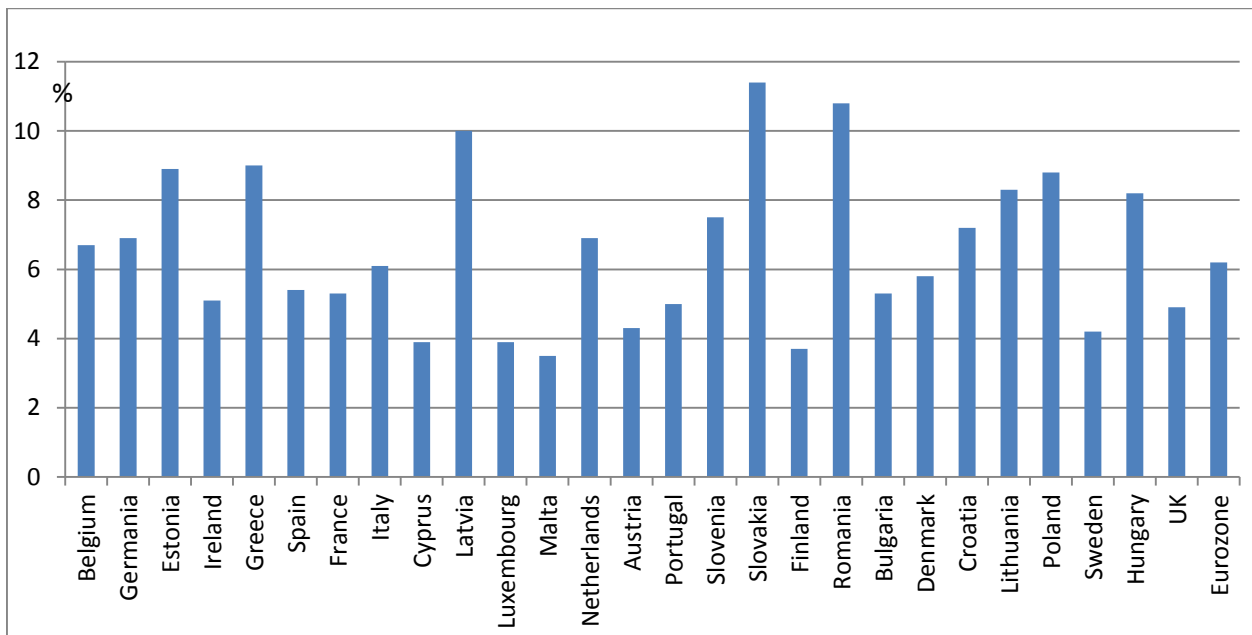
Figure 2 - Core inflation measures in Romania



Source: National Bank of Romania

In figure 2 I have presented the three measures of core inflation. Inflation CORE 2 adjusted (core inflation), which can be directly controlled by the National Bank of Romania, has a share of 60.54% in the CPI basket, marking the price changes that present low volatility. The share of administered prices is of 17.2%, of the high volatility goods (fruits, vegetables, eggs, fuel) is of 14.83%, while the share of the excisable products is 7.43% in the CPI basket. In Romania, the share of what is considered to be traditionally volatile food (fruits, vegetables) is very high compared to other European Union countries, which makes it difficult for the central bank to control the inflation phenomenon (Dumitru, 2011). Furthermore, figure 3 shows that Romania ranks second among European Union countries in what concerns the share of high volatility goods (fruit, vegetables and fuels).

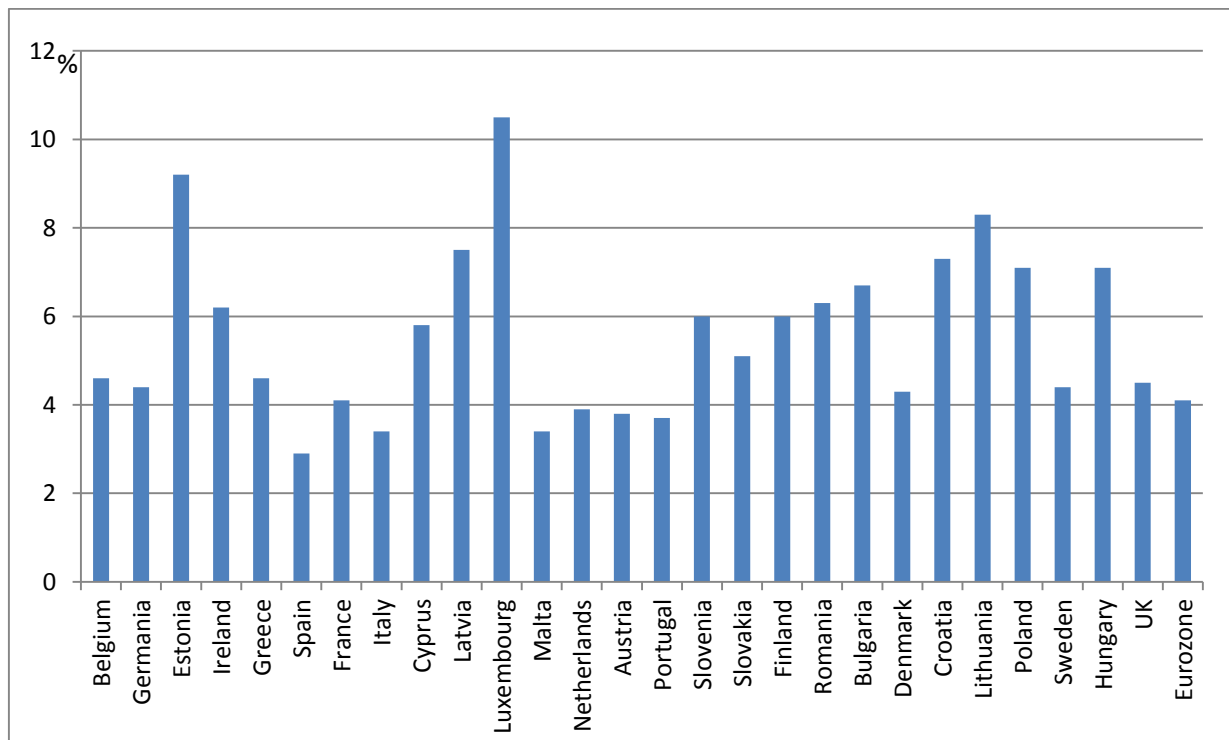
Figure 3 - The share of high volatility goods in HICP (%)



Source: European Central Bank

In what concerns the excisable goods, the share in the HICP for Romania is above the European average, a rise of the costs of these products having a greater impact on the value of the inflation rate.

Figure 4 - The share of excisable goods (alcohol, tobacco) in HICP (%)



Source: European Central Bank

With the help of the Granger-type causality, we will see what CORE measure has the highest predictability power on the inflation rate expressed by CPI. We will analyze the causal relationship between the three core inflation measures and the CPI inflation rate, testing the connection between them for a number of 2, 4, 8 and respectively 12 lags. The analyzed period is August 2005 - September 2014, using monthly data obtained from the annual reports of the National Bank of Romania. The choice of the period is based on the adoption of the direct inflation targeting regime by the Central Bank in August 2005.

The Granger causality can be expressed by the hypothesis that the variable X causes variable Y, indicating the impact of the past values of the variable X on variable Y. In order to test whether the variable X Granger-causes variable Y, we consider the following equation:

$$Y_t = \alpha_0 + \alpha_1 y_{t-1} + \dots + \alpha_k y_{t-k} + \beta_1 x_{t-1} + \dots + \beta_k x_{t-k} + u_t$$

where: k represents the chosen number of lags for establishing the time horizon

α, β - coefficients

The first step is to test the following hypothesis: $\beta_1 = \beta_2 = \dots = \beta_k = 0$. If the hypothesis is rejected, then it results that variable X Granger-causes variable Y, in other words the current value of Y is explained to a great extent by the past values of X.

Table 3 - Granger causality test values

	2 lags	4 lags	8 lags	12 lags
CORE 1 does not granger Cause CPI	0.009	0.064	0.640	0.851
CORE 2 does not granger Cause CPI	0.280	0.336	0.481	0.219
CORE 2 adjusted does not granger Cause CPI	0.238	0.162	0.206	0.287

Source: data compilation using E-views

From Table 3 results that the probabilities associated to the acceptance of the null hypothesis according to which there is no significant causal relationship between the core inflation measures (CORE 2 and Core 2 adjusted) and the CPI inflation are higher than the significance threshold (0.05) and thus validates this hypothesis, for all lags considered. In what concerns the CORE 1 measure, it can be seen as a CPI inflation predictor for the short term only.

3.1. Consumer's Perception on Inflation

Consumers face daily price changes in various goods and services that they purchase. Thus, each person develops its individual perception on the inflation, whether or not there is a rapid increase in prices. Among the factors contributing to the perception of a higher inflation than the value measured by the harmonized index of consumer prices (HICP) the persistence of inflation perceptions, ignoring the qualitative changes, the stronger memory of the increases of prices rather than price reductions, the influence of certain social factors are distinguished.

Because the shares of goods and services purchased from the CPI basket are representative for a consumer pattern, the inflation rate perception by the population may differ from the official figures presented by the Central Bank. Inflation measured by the index is not the same as the general price level changes faced by each consumer.

The perceptions on inflation are important because they contribute to people's behavior as consumers, investors, savers and employees.

Giovane and Sabbatini (2005) analyze the effects of the existence of the difference between the measured and perceived inflation. First, consumers are unable to correctly identify prices of goods, resulting in a decrease in the efficiency allocation of prices. The credibility of monetary policy may be affected when measuring inflation indices indicates the correct values of inflation, and if the euro zone can undermine confidence in public acceptance and the stability of the currency.

There are a number of cases where people have a misperception about inflation, meaning overestimation price changes. When the individual's standard of living has increased, it will compare the prices of goods purchased high quality with lower prices of goods purchased in the previous period, the price difference is not due to inflation. And the financial crisis when the lending rate is high, or the amount of capital held decreases, consumers have a misunderstanding of the phenomenon of inflation.

Pelinescu and Dospinescu (2008) analyzed the relationship between the official inflation and inflation perceptions in Romania, 2002-2005, in the context of transition economies. By using regression method were constructed series of perception and expectation consistent with CPI inflation. Results indicate that between 2002-2005 disinflation was not correlated for the perception of inflation, the consumer has received a price decrease smaller than in reality.

Romania's consumption behavior is different from that estimated for the European Union as there are differences between standard purchasing and between data sources underlying the estimation weighting system. Although the issue of the difference between measured and perceived

inflation is widely debated in the European Union, Romania has put more emphasis on analysis methods for official inflation measure.

Conclusions

Core inflation is a useful indicator when establishing monetary policy measures because it offers a more conclusive picture on the component of the inflationary phenomenon that can be effectively controlled by the central bank. It also increases the transparency of the monetary authority by providing all this information that characterizes the inflationary process. However, due to the general public familiarity with the Consumer Price Index (CPI) the inflation target is established through this indicator.

The most used estimation method for the core inflation is the exclusion methods from the consumption price of the products that have volatile prices (fruits, vegetables, eggs), of the goods and services with administrative prices, as well as of the excisable goods (tobacco and alcohol).

By means of Granger causality test, on the basis of monthly three measures data for core inflation, we obtained that CORE 1 can be used as a predictor for overall inflation, only for the short term.

After the implementation of inflation targeting strategy in August 2005, the National Bank of Romania has succeeded to control inflationary phenomenon by means of a mix of macroeconomics policies, affecting the gradual decreasing of inflation rate, to a historical minimum level of 0.41% in January 2015.

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THE INSTITUTION OF LEGISLATIVE DELEGATION IN THE FIELDS OF ECONOMICS AND FINANCE. AN OVERVIEW OF THE TIMEFRAME 2010-2014

Ionel BOSTAN*

Abstract: *According to the Romanian Constitution (Art. 115, paragraph 1), the Government, as a body of the Executive Power, is endowed with attributions belonging to the Legislative function, specific to the Parliament. Thus, we are dealing with what the juridical science calls “legislative delegation”. On this basis, the Government may issue simple ordinances, under a special enabling law and emergency ordinances - in case of special circumstances, which both represent primary normative acts with the power of a law. In this paper we approach the issue of the legislative delegation during the recent five years (2010-2014), focusing on a few aspects relating to the fields of finance and economics.*

Keywords: The Constitution, Parliament, Government, Ordinances / Emergency Ordinances

JEL Classification: K4

Introduction

The theme of the institution of legislative delegation was the subject of numerous papers (Pivniceru and Tudose, 2012; Safta, 2014; Maracineanu, 2008; Karoly, 2009; Saramet and Toma-Bianov, 2012), which underlines its importance in the current context. To a lesser extent, we also covered this theme in several books and papers (Bostan, 2014a-d), focusing on the economic and financial aspect. In the national law, the legislative delegation assumes that the normative act is no longer issued by the Parliament but by the Government, which may adopt: simple ordinances, under a special enabling law (concerning both the period during the parliamentary recess, as well as the rest of the year) and emergency ordinances (EO) - in special situations.

Any such normative act, in fact primary acts with the force of a law, represents a means to initiate a law (Maracineanu, 2008), the procedure being completed by the Legislature, by a form of (1) approving the ordinance, (2) amending and approving it or (3) rejecting it. The enabling of the Government, by law, by the Parliament, to issue ordinances, comes under the provisions of article 108 and article 115 of the Romanian Constitution (2003), assuming the establishment of their field – excepting the field of organic laws – and the date by which they may be issued. By the same law, the Parliament reserves its right to approve such ordinances, according to the legislative procedure.

The legislative procedure based on delegation, though controversial, as the Parliament loses its attribute as the sole legislative authority of the country is still quite commonly used. Therefore, we will further refer to the motivations involved and to the frequency encountered in practice.

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1. Juridical bases of the government empowerment to issue ordinances. Fields, subfields and normative acts referred to in the enabling laws (2010-2014)

1.1. Government Ordinances

The Government is empowered to issue ordinances in fields outside the scope of organic laws from the date of the entry into force of the enabling law to its expiry date, usually not before the end of the ordinary session of the Parliament and until the activity of the Parliament is resumed in the same type of session. If we refer only to 2014, such fields envisage multiple aspects (Law no. 119, 2014).

We mention that various fields stand out, such as the field of public finances and the economy, with measures referring to 18 subfields, the transport and the infrastructure with measures referring to 11 subfields, the agriculture and environment with measures referring to 8 subfields, regional development and public administration with measures referring to 7 subfields, European funds with measures referring to 5 subfields etc. We underline that according to Art. 115, paragraph (3) of the Constitution of Romania (2003), the ordinances issued by the government must be submitted to the Parliament for approval, according to the legislative procedure, until the resumption of the parliamentary activity in the next ordinary session. The non-compliance with the time limit entails the suspension of the effects of the ordinance.

During the previous years, the government ordinances (OG) have covered approximately the same fields only with a different number of measures referring to subfields. For example, in 2013, we encountered the empowerment of the Executive (Law no. 182, 2013) to regulate on the Information Society (amending and supplementing certain normative acts in the field of electronic communications, information society services, postal services and cyber-crime), social protection and inclusion (a. amending and supplementing GEO no. 70/2011 on social protection measures during the cold season; b. regulations on the social inclusion of Roma), education and research (a. the regulation of some issues of content for education and scientific research; b. regulations on service inventions).

Another important field that was covered by the legislative delegation was the public procurement, a field with significant importance for the business environment. Hereby, the regulations issued by the Government referred to: a) amending and supplementing GEO no. 34/2006 concerning the awarding of public contracts, the public works concession contracts and services concession contracts; b) amending and supplementing GEO no. 30/2006 regarding the verification

function of the procedural aspects related to the awarding process of the public procurements contracts; c) amending and supplementing GEO no. 74/2005 regarding the organization of the National Authority for Regulating and Monitoring Public Procurements.

In 2012, we witnessed the empowerment of the Executive (Law no. 127, 2012) to (also) regulate in the field of administration and internal affairs, aiming to regulate the legal framework necessary for the automatic search of the reference data in relation to the Member States of the European Union and to ensure the recognition of the laboratory activities on fingerprint data. In the field of culture, the empowerment referred to: a) amending and supplementing GO no. 9/1996 referring to the improvement of the financing system of public cultural institutions and the remuneration system of their personnel, and b) amending and supplementing GEO no. 189/2008 regarding the management of public cultural institutions. The legal regime of the contraventions was also considered, modifying and supplementing the provisions of GO no. 2/2001. In the year 2011 rather particular fields (Law no. 131, 2011) as the field of constructions were envisaged, the empowerment regarding: a) amending and supplementing Law no. 372/2005 referring to the energy performance of buildings; b) amending and supplementing Ordinance no. 20/1994 referring to the measures to reduce the seismic risk of existing buildings; c) amending the Law no. 152/1998 on the establishment of the National Housing Agency.

Regarding the activity in the field of health we mention as important: a) the regulations referring to the transfer of the personnel qualified to evaluate the conformity of medical devices and management systems from the National Agency for Medicines and Medical Devices to the Technical Office for Medical Devices Certification and 2) the measures referring to the verification and control of health units with beds by the Ministry of Health and the subordinated institutions. The empowerment of the Executive also covered several regulations on towing illegally parked vehicles in the sector of public administration and internal affairs.

Finally, the year 2010, characterized from the economic perspective by a severe crisis, was differentiated by the empowerment of the Government by the Parliament, by law (Law no. 138, 2010) to issue ordinances aiming to obtain an important economic impact. The regulatory fields and subfields of action / the main measures are presented in Table 1.

Table 1 - The fields regulated by GO, for which the Government was enabled by “legislative delegation” (2010)

Fields regulated by GO	The subfield / main measures
I. Finances and economy	1. Budgetary correction; 2. Amending and supplementing Law no. 30/1991 on the organization and functioning of the financial control;

	<ol style="list-style-type: none"> 3. Amending and supplementing Law no. 321/2006 on the regime of assigning non-refundable grants for programs aimed at supporting the activity of Romanians everywhere; 4. Amending and supplementing GEO no. 51/1998 referring to the recovery of some state assets; 5. Amending and supplementing GEO no. 23/2004 establishing some measures for the reorganization of the Authority for Bank Assets Recovery; 6. Amending and supplementing Law no. 36/2008 on some measures to privatize the company "Automobile Craiova" - SA; 7. Measures for the transposition of the EU legislation harmonizing the conditions for the marketing of products; 8. The amendment of Annex no. 3 of GEO no. 116/2006 referring to the social protection of the employees subject to collective redundancies; 9. Amending and supplementing GEO no. 95/2002 regarding the defense industry; 10. Amending and supplementing GEO no. 54/2002 regarding the establishment and maintenance of the minimum safety stocks for crude oil and petroleum products; 11. Regulations referring to the management of the external non-refundable grants for the objective "European territorial cooperation".
II. Agriculture:	<ol style="list-style-type: none"> 1. The establishment of a temporary state aid scheme aiming to ensure the access to finance in agriculture; 2. The regulation of the conditions to evaluate and assess the damages caused by the natural phenomena that generate natural disasters in limited areas in agriculture, addressed to the farmers which are not insured; 3. The regulation of the control of the operations part of the financing system by the European Agricultural Guarantee Fund.
III. Transport:	<ol style="list-style-type: none"> 1. Amending and supplementing GO no. 112/1999 regarding the free travel on the CFR – the Romanian railway; 2. Amending and supplementing GEO no. 109/2005 on road transports; 3. The granting of a loan to the Romanian National Company of Motorways and National Roads SA; 4. Regulations on the preliminary measures for transport infrastructure developments.

Obviously, during the above-mentioned year, other domains were also covered - justice, public administration and internal affairs, youth and sport - but we will not insist upon them.

1.2. Emergency Ordinances

This type of normative acts issued by the Executive requires only that the situation or circumstances invoked by the Government for their adoption to be justified in terms of the extraordinary situations whose regulation cannot be postponed. The urgency must be motivated within the contents of the ordinance "(Saramet and Toma-Bianov, 2012), also being required the highlight of the elements of public interest. Among the reasons occasioned by the adoption of a GEO can be found, for example "the commitment of the Government to continue the economic and financial reforms in order to maintain the economic stability ... and to ensure the adequate improvement of the relevant legal framework", as in the case of GEO no. 90/2014 amending and supplementing the Law on Capital Market (GEO no. 90, 2014).

It was added the fact that “the fail to urgently adopt the particular normative act would lead to the preservation of a legal system inconsistent with the whole evolution in terms of secondary legislation and with the requirements of the participants on the capital markets” and that “any delay in aligning the primary legislation with the current needs of the market and of the secondary legislation would lead to the impermissible maintenance of certain discrepancies among the legal provisions in this matter”. When GO no. 26/2013 on strengthening financial discipline of certain economic operators in which the State or the administrative-territorial units are single or majority shareholders or own a majority share (GEO no. 88, 2014) was amended and supplemented, there have been mentioned the obligations of the Romanian state “assumed before the International Monetary Fund and the European Commission, concerning the deadlines for the submission, by the economic operators, of the annual and multiannual revenue and expenditure budgets”.

Equally important was also considered “the need to regulate some aspects insufficiently legislated by GEO no. 70/2014 on staff salaries in the public health system and the public system of social assistance in 2015”, any delay increasing the risk to generate “the appearance of discrimination for the same socio-professional category of the public system of social assistance”. The adoption of certain measures aiming to streamline the management system of the structural instruments (GEO no. 85, 2014) was justified by stating their purpose “to avoid the automatic suspension of the funds allocated to Romania and to record a continuous increase of the degree of absorption”, taking into consideration the fact that the “lack of the direct and sustained intervention of the Ministry of European Funds in the effective management of funds and activities related to Sectoral Operational Programme – Environment (SOP ENV) and Sectoral Operational Programme – Transport (SOPT) lead to an increased risk of automatic suspension of funds”. It was also emphasized the fact that the failure to adopt the specific measures would lead to the “failure to ensure the absorption of the funds allocated to Romania”.

Regarding the amendment and supplement of the Fiscal Code, recently, as the government had to mention the elements which represent the public interest and constitute an extraordinary situation, whose regulation cannot be postponed, several issues were invoked (GEO no. 80, 2014):

- the provisions of (EU) Regulation no. 904/2010 of 7 October 2010 on administrative cooperation and combating fraud in the field of VAT;

- the need to change the currency (from Lei to Euro) in which shall be made the special statements of VAT and shall be paid the VAT due in the Member States of consumption (starting with 2015) by taxable persons which shall apply the special arrangements for electronic services, etc., provided by the non-taxable persons;

- the need to prevent the fluctuations in excise revenue to the state budget depending on the variation of the exchange rate Lei/ Euro set by the European Central Bank on October 1st, each year, depending on which the level of the excise for the following year is set in Lei, to preserve the real value of the income and to ensure the predictability, assuming the establishment of the excise level in Lei and the update according to the increase in consumer prices;

- the need to take urgent measures to support the economic growth, without which the funding of the economy on short- and medium-term might be affected, to meet the commitments assumed in the agreements with the IMF, referring to the efficiency of the tax system, taking into account the consultation between the Romanian Government and the IMF on developing a new tax regime in the field of oil and natural gas;

- the need to maintain the budget deficit at the level agreed with the international organizations, requiring the extension of the period of application of special measures for the taxation of the exploitation of the natural resources, until the entry into force of the new tax system for the taxpayers in the field of oil and natural gas.

Referring to the risks of the failure to urgently adopt the specific GEO, it was stated that they are given by the possible “emergence of certain important difficulties in complying with the accounting obligations and, hence, with the tax duties by the taxpayers, physical persons engaged in activities in order to obtain income”. When it was necessary to urgently adopt certain derogative measures from the provisions of Law no. 500/2002 on public finance and Law no. 69/2010 on the fiscal-budgetary responsibility (GEO no. 73, 2014), it was considered that the failure to promote those measures could lead to negative consequences such as certain considerable risks.

Among them, we mention “the risk to mismatch the budget planning with the budget execution for the first ten months of the year, which can lead to a distorted image of the budgetary expenditure estimated for 2014 affecting the possibility of granting funds to the main credit coordinators for a better exercise of their activity until the end of the year” and “the risk to accumulate increasingly large amounts estimated in titles which became executory during the next period, having as their object the granting of salary rights to the personnel in the public sector, impacting the expenditure and the budget deficit”.

The latter could have occurred by the failure in 2014 to pay the installment for the year 2015 for the payment obligations consisting of executory titles intended to confer the salary rights to the personnel in the public sector.

2. Trends and developments in adopting government ordinances/ government emergency ordinances (GO/ GEO) with economic and financial provisions (2010-2014)

In our attempt to assert the magnitude of the legislative process by means of legislative delegation, we stopped upon the issue/ adoption of simple ordinances, under a special enabling law and emergency ordinances – in case of special circumstances, in relation to the data and information published in the Official Gazette following the publication of this type of normative acts. We considered their total number, highlighting the percentage of those with economic and financial content (Table 1), as they have evolved during the last five years.

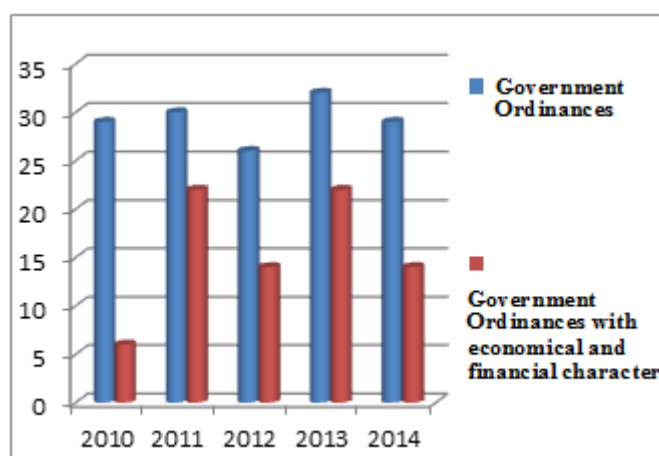
Table 1 - The evolution of the number of GO/GEO issued during 2010-2014

Year	GO*	GEO*
2010	29 (6)	131 (52)
2011	30 (22)	125 (42)
2012	26 (14)	95 (26)
2013	32 (22)	115 (47)
2014	29 (14)	94 (43)

**Note:* The numbers in parenthesis represent the number of GO/GEO with economic and financial content.
Source: The Official Gazette of Romania

We consider the charts presented below (Chart 1 and 2) to be highly suggestive in reflecting the trend of the number of GO/GEO, with economic and financial content issued during 2010-2014.

Figure 1 - The trend of the number of GO with economic and financial content (2010-2014)

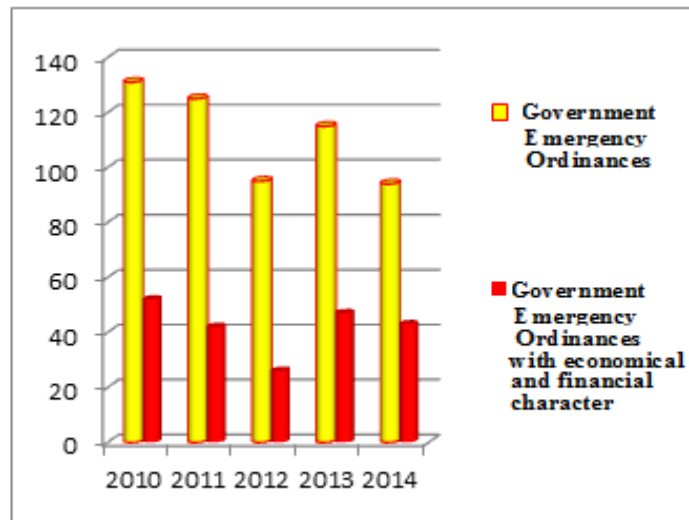


Source: The Official Gazette of Romania

If the total (annual) number of Government Ordinances stays around 30, it appears that the number of GO with economic and financial content varies greatly from year to year, in an irregular

line, with variable increases or decreases. For example, in 2010, that percentage was 21%, in 2012 and 2014, approx. 50%, and in 2011 and 2013 it reached approx. 70%.

Figure 2 - The trend of the number of GEO with economic and financial content (2010-2014)



Source: The Official Gazette of Romania

Regarding the annual number of GEO, we observe a clear trend of decrease for the period under review; from 131 in 2010 to 94 in 2014. However, when it comes to the GEO with economic and financial content, their number also varies irregularly from one year to another, drawing an irregular line. Their largest percentage was recorded in 2010 – 49 %, and the lowest in the year 2012 – 27 %. In the last year analyzed (2014), the percentage in question was of approx. 45%, accounting for 43 GEO with economic and financial content, out of a total number of 94.

As we have previously shown in other papers (Bostan, 2014e), the anti-crisis measures that the Government had to establish by normative acts under its jurisdiction, did not represent, by far, a reason to amplify the total number of GO/ GEO in the period that followed the year 2009, the year of the maximum decline in terms of finance and economics.

Conclusions

The institution of the “legislative delegation” has a particular importance in the present context. The effectiveness of this regulatory system led, in the period under review, to resort to the adoption of simple ordinances and emergency ordinances, whenever the economic and social context required the urgent solving of a certain problem. For this, the Government is enabled, under the conditions described in this paper, to issue ordinances in fields outside the scope of the organic laws.

The object of regulation may cover multiple aspects, the most common – during the period under review – were related to public finance and economy, transport and infrastructure, regional development and public administration, European funds, agriculture etc. Obviously, the ordinances must be submitted to the Parliament for approval, by the time its activity is resumed in the next ordinary session.

The issue of Emergency Ordinances assumes that the situation or situations invoked by the Government for their adoption is justified in terms of the extraordinary circumstances whose regulation cannot be postponed.

During the period under review, the emergency status and the elements of public interest were frequently linked to the external agreements of the Government in terms of conducting financial and economic reforms, adapting the legal framework to the European standards, maintaining the continuous growth of the degree of absorption of the funds allocated to Romania and avoiding the possible suspensions. The extent of the legislative process by means of legislative delegation was not a considerable one, the total (annual) number of government ordinances being of approx. 30, the economic and financial ones varying between 21% and 70%.

Regarding the annual number of GEO, we observe a clear trend of decrease for the period in question – from 131 in 2010 to 94 in 2014, the percentage of those with economic and financial content standing at approx. one third of the total.

Acknowledgments

The author would like to thank the anonymous reviewers for their valuable comments and suggestions to improve the quality of the paper.

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FOREIGN DIRECT INVESTMENT AND THE ROMANIAN ECONOMY

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Abstract: *In a country's economy, investments take center stage, both in the production of goods and services and in the sphere of consumption. They represent a factor that influences simultaneously both demand and supply. The importance and impact of FDI have rightfully attracted all EU Members heed and resulted in a fierce competition for foreign capital. The purpose of this paper is to analyze the impact of FDI on Romania economic growth. Research results show that FDI have a positive impact through the medium of productivity and competitiveness growth in the host countries, by means of technology and capital transfer.*

Keywords: foreign direct investment, growth economy

JEL Classification: E22, F14, F43

Introduction

Occurring in the world economy since the period of the great geographical discoveries, the direct foreign investments in the last few decades have been a veritable explosion in the international transactions, which has generated a surprising number of studies and analyses which have been dedicated. The investments with the participation of the foreign capital take the form of controversial, although, generally it is recognized the fact that they have a certain preponderance of their positive functions, especially at the level of the macrosystems (the national economy, the geographical areas etc.).

In Romania FDI contributes to the growth formation of the capital, in particular in the private sector and, at the same time, they have a beneficial role in putting into value the qualified manpower through the creation of new jobs. FDI constitute leverages for consolidation of international ties and the economic interdependence. This creates competitive advantages given by the volume of the exports on the world market, as well as the ability to generate drive effects on the adjacent industries (Anghel, 2002).

1. FDI – features

The issue of foreign direct investment and their influence on the economy continues to be a topic of interest for research and economic practice. Thus over time different definitions have been given to the concept of 'direct investment'.

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The Explanatory Dictionary of the Romanian Language defines the investment as a placement of funds, of equity in a company or a business (Opera, 2010).

Generally it can be accepted that any placement of funds in the economic, social, cultural, administrative, military, etc. to ensure regeneration or growth of the assets, labor coverage of the activities or promotion of organizations or businesses' goals is an investment (Zait, 2008).

United Nations Conference on Trade and Development defines foreign direct investment (FDI) as those investments that involve a long-term business relationship reflecting a lasting interest of an economic entity (direct investor or parent enterprise), as well as its control on an enterprise resident in a country other than that of the investor (UNCTAD, 2009).

The Organization for Economic Cooperation and Development considers as FDI those investments made in order to establish sustainable economic relations or exercise significant influence over the management of a business (OECD, 2010).

National Bank of Romania believes that foreign direct investment is a long term investment relationship between a resident entity and a non-resident entity, which usually implies that the investor exerts a significant influence on the management of the companies in which he invested (BNR and Institutul National de Statistica 2009).

For the International Monetary Fund, FDI is a category of international investment that reflects the purpose of an entity resident in a country (direct investor) to obtain a lasting interest in an enterprise resident in another country (direct investment). Lasting interest implies the existence of a long-term relationship between the direct investor and the company (International Monetary Fund, 2011).

Foreign direct investment (FDI) reflects the placement of equity by foreign investors (non-residents) in other countries for the establishment and development of companies in various fields. Foreign direct investment reflects foreign elements, represented by capital, land placement process, technological streams, knowledge, management, goods and services (Voinea, 2008).

In conclusion, FDI represents the relationship between a resident entity and a non-resident entity, usually - a long-term investment relationship and the investor has a significant influence or control.

2. The impact of FDI on economic growth

The impact of FDI on economic growth and, respectively, on gross domestic, product was the subject of much research, which revealed a positive impact that foreign direct investment have on the economic growth in the host country. Firstly, the impact of FDI on economic growth manifests itself

differently depending on the type of foreign direct investment. In the case of a greenfield investment, economic growth achieved due to foreign direct investment is reflected by creating new production capacities, more jobs, more consumption among the population and increased revenue from contributions, taxes and fees.

In the case of FDI taking the form of privatization, it is mainly affected the technological process in the host country. Most of the times, in the case of foreign direct investments through privatization, this is followed by a refurbishment of the company. After retrofitting, foreign direct investments become a strong competitor on the market in the host country, thus motivating local Economic Agents.

FDI inflows hence stimulate domestic investment, as local producers will be motivated to improve the quality of goods and services produced in order to be competitive in the market. In many cases, foreign direct investors use raw materials, semi-finished auxiliary materials or services in the host country, thus having a positive impact on local companies.

For Romania, FDI have a very important role in the privatization process. Most privatizations after 1990 were made by foreign direct investments. Unfortunately, in Romania there have been negative experiences related to privatization through FDI. In some cases, after the privatization, foreign investors have decided to cease business activity, capitalized the assets and repatriated earnings. However, not all experiences were negative, the largest and most important companies in Romania today are companies belonging to foreign direct investors.

Table 1 - Evolution of gross domestic product, of GDP per capita and FDI inflows in Romania during 1990-1995

Indicators /Year	UNIT	1990	1991	1992	1993	1994	1995
Gross domestic product	Million Dollars	38.299	28.847	25.090	26.361	30.073	35.477
Gross domestic product per capita	Dollars /capita	1.651	1.254	1.101	1.158	1.323	1.564
Foreign direct investment	Million Dollars	0,01	40	77	94	341	419
Foreign direct investment stock	Million Dollars	0,01	44	122	215	402	821

Source: Data processed after the World Bank database and the United Nations Conference on Trade and Development, 2010 - 2011 (UNCTAD State), (<http://databank.worldbank.org/ddp/home>)

Gross domestic product is calculated as the difference between the total value of goods and services produced in a given period (gross global product) and the total value of intermediate

consumption (economic goods and services produced in order to obtain other economic goods and services). Gross domestic product is synonymous with the final product (Vasilescu and Romanu, 2003). GDP per capita is calculated by dividing the country's gross domestic product to the existing population, in the middle of the year, in the respective country and it is considered the most relevant indicator for measuring the economic growth of a state. Table No. 1 reflects the evolution of gross domestic product, of GDP per capita, of inflows and FDI stock in Romania for the period 1990-1995.

In 1990, the GDP was \$ 38.299 million dollars, registering a slight decrease in the following period, 1991-1992. The decrease in gross domestic product in 1991, 1992, is largely due to the political instability in the context of the 1989 revolution, after which Romania has undergone the transition from communist to democratic state. Gross domestic production 1990 was \$ 1,651 per capita. In the period 1991-1992, GDP per capita has decreased, following the evolution of gross domestic product.

In the period 1990-1993 there was an increase for foreign direct investments inflows, but their level remained low. In 1990, FDI inflows were \$ 0.01 million, increasing in two years' time to 77 million in 1992.

Table 2 - Evolution of gross domestic product, GDP per capita and FDI inflows in Romania during 1996-2001

Indicators /Year	UNIT	1996	1997	1998	1999	2000	2001
Gross domestic product	Million Dollars	35.334	35.286	42.116	35.592	37.053	40.181
Gross domestic product per capita	Dollars /capita	1.565	1.565	1.871	1.584	1.651	1.816
Foreign direct investment	Million Dollars	263	1,215	2,031	1,041	1,037	1,157
Foreign direct investment stock	Million Dollars	1.097	2.417	4.527	5.674	6.953	8.339

Source: Data processed after the World Bank database and the United Nations Conference on Trade and Development, 2010 - 2011 (UNCTAD State), (<http://databank.worldbank.org/ddp/home>)

In the period 1993 - 1998, all four indicators, namely GDP, GDP per capita, FDI inflows and FDI stock continued to rise. Gross domestic production 1998 reached a level of 42.115,49 million dollars, representing 10.74% of the gross domestic product of Romania in 1998. After 1997, as it can be seen from the data presented in Table No. 2, foreign investments inflow grew, recording higher values of over \$ 1,000 million dollars per year. The increase of annual FDI inflow led to the amplification of FDI stock, reaching nearly 5,000 million dollars in 1998.

In 1999 there was a slight decline in GDP and FDI inflow due to the global economic context. Gross domestic product per capita decreased in 1999, following again the development in GDP. FDI stock mended in 1999, reaching 5673.98 million dollars.

Since 2000, gross domestic product, GDP per capita, inflow and the stock of FDI in Romania have started to rise again. FDI inflow in 2000 was \$ 1.037.000 and the stock of foreign direct investment reached a value of \$ 8.339.000. The values recorded in 2000 for gross domestic product, GDP per capita and FDI inflow was very close to the values recorded in 1998, before the deductions of 1999. The FDI stock of 2000, 8.339 million dollars, was two times higher than the existing stock in 1998, of 4.527 million dollars.

Table 3 - Evolution of gross domestic product, GDP per capita and FDI in flow in Romania during 2002-2007

Indicators /Year	UNIT	2002	2003	2004	2005	2006	2007
Gross domestic product	Million Dollars	45.825	59.507	75.489	98.913	122.642	169.283
Gross domestic product per capita	Dollars /capita	2.102	2.737	3.481	4.572	5.681	7.857
Foreign direct investment	Million Dollars	1.144	1.844	6.443	6.482	11.393	9.925
Foreign direct investment stock	Million Dollars	7.846	12.202	20.486	25.816	45.452	62.961

Source: Data processed after World Bank data base and the United Nations Conference on Trade and Development, 2010 - 2011 (UNCTAD State) (<http://databank.worldbank.org/ddp/home>)

Increasing value of foreign direct investments stock illustrates the growing presence of foreign investors in the Romanian economy; their impact on the economy being more and more visible.

As shown in Table No.10, in the period 2002-2006, there was an increase in FDI, reaching the amount of 13.393 million dollars in 2006. The stock of foreign direct investments has increased due to entrance of FDI flows in Romania's economy. In 2003, the stock of foreign direct investments was of 12.202 million dollars, exceeding the value of 10.000 million dollars.

High levels of inputs and of the stock of foreign direct investments contributed to GDP growth and GDP per capita. Gross domestic product increased in the period 2002 - 2007, reaching a value of 169.283 million dollars in 2007, an increase of 269% compared to 2002. The GDP per capita also increased, reaching 7.857million dollars per capita in 2007.

From the analysis in the Ph.D. thesis, it results that 2002 – 2007 was a good period in terms of foreign direct investments impact in Romania's economy. Tax reforms in 2005 and Romania's

adherence to the European Union in 2007 has contributed to improving economic climate, having as effect also an increase in the stock of foreign direct investments. In turn, these factors, fiscal reforms, EU membership, increasing the stock and foreign direct investments inflow have contributed to GDP growth of Romania and GDP per capita, implicitly.

Table 4 - Evolution of gross domestic product, GDP per capita and FDI inflows in Romania during 2008-2012

Indicators /Year	UNIT	2008	2009	2010	2011	2012
Gross domestic product	Million Dollars	204.335	164.346	164.436	189.779	169.396
Gross domestic product per capita	Dollars /capita	9.497	7.651	7.670	8.874	7.943
Foreign direct investment	Million Dollars	13.883	4.846	2.940	2.523	2.242
Foreign direct investment stock	Million Dollars	67.910	72.008	70.264	71.344	74.171

Source: Data processed after World Bank database and the United Nations Conference on Trade and Development, 2010 - 2011 (UNCTAD State) (<http://databank.worldbank.org/ddp/home>)

Increased inflow of foreign direct investments and the stock of foreign direct investments level had an important role in GDP growth per capita. Through the positive impact that FDI have had on GDP and GDP per capita, it can be said that foreign direct investments have played an important role in the development of Romanian economy, contributing to the achievement of the emerging economy.

The global financial crisis of late 2008 caused panic among foreign investors worldwide. Foreign investors began to be more reserved since 2009. This retention global investors influenced the FDI inflow in Romania since 2009.

The decrease of FDI inflow in Romania was followed by a reduction in GDP and GDP per capita in 2009. The GDP per capita was of 7500.35 million dollars in 2009, a drop of 19.5% compared to 2008.

In the period 2009 - 2011, the inflow of foreign direct investments in Romania decreased due to the attitude of investors and the slowing down of FDI flows worldwide. In the years 2010, 2011 there was a slight increase in gross domestic product, with a value of 179.793.51 million dollars in 2010. Gross domestic product per capita also increases in the period 2010-2011, reaching 8.405,49 dollars per capita in 2011. However, in comparison with 2008, the level remained low.

While the FDI inflow was poor and continued to fall during the global financial crisis, in 2009 - 2011, respectively, the stock of foreign direct investments remained at a high level of over 70.000 million dollars every year. Due to the global financial crisis, due to decreased demand for goods and services worldwide, foreign investors reduced their activity. The high level of foreign direct

investments stock in Romania shows that this restriction of foreign investors activity in the world did not affect Romanian economy.

In 2011, the stock of foreign direct investments represented 39.12% of Romania's GDP, FDI continuing to positively influence Romania's economic growth. In 2012 there has been a decline of the FDI inflow and its level was reduced by 2.242 million dollars, far below the 13.883 million dollars recorded in 2007. The gross domestic product of Romania decreased in 2012 by 11% compared to 2011 and resulted in a decline in GDP per capita.

On the whole analyzed period, 1990 - 2012, gross domestic product and gross domestic product per capita have evolved in the same trends with the inwards and stock of FDI, that is, increased and decreased in the same periods, thus confirming the positive effect that increased FDI has on GDP. In Romania, foreign direct investments have played an important role in the modernization and economic development through the transfer of capital, technology and management.

Conclusions

The impact of FDI on host economies is mostly a positive one, manifesting itself differently depending on the area and the region in which foreign investment is held. The impact of foreign investments on the host country depends largely on their quality and quantity. For the Romanian economy, by 2000, the level of foreign direct investments has been reduced. Foreign investors introduce in the host country, most often than not, new activities and technologies or upgrade the existing ones.

An important contribution of FDI on economic development of host countries is the transfer of technology, developed by physical assets or knowledge. FDI have a positive impact on foreign trade in the host country. Foreign direct investments do not lead to a replacement in trade flows, but to an enhancement of trade relations.

In addition to the direct impact that foreign direct investments have on foreign trade, they contribute to the restructuring of the national economy and local companies, both directly, for those who have ties to foreign investors, and indirectly, through increased competition between local firms and foreign affiliates.

Foreign direct investments have a direct impact on the generation of employment and unemployment. Working conditions and wages offered; including new skills acquired by local employees due to foreign investors also have a positive impact on the economy of the host country.

Moreover, FDI has a positive impact on the state budget by increasing state budget revenues due contributions, assessments and taxes paid by foreign direct investors in the economy of the host country.

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AGEING POPULATION: COMPARATIVE ANALYSIS AMONG EUROPEAN UNION STATES

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Abstract: *The aging population is a global phenomenon, which has affected almost all the EU states. The consequences are very important since it affects the socio-economic environment usually on the long run. Some of them could consist in increasing the public expenditure on pensions, social security and health services, which will raise the overall burden on the working population. Sometimes, a significant reduction of the labour force will even diminish the growth rate of an economy. Considering these aspects, the present paper intends to analyse the demographic situation from the EU states, the factors that have generated it and to identify the possible future trends. To determine the evolution of the ageing population phenomenon, we have analysed some demographic indicators included in various statistical reports and databases, such as the fertility rate, the median age, the percentage of population over a certain age and the age dependency ratio.*

Keywords: ageing population, fertility rate, population pyramid, median age, age dependency ratio

JEL Classification: J11, J11

Introduction

Population ageing is considered to be by United Nations (2002) a “process by which older individuals become a proportionally larger share of the total population”. This process is a consequence of two main factors: low fertility rate and longer life expectancy.

Looking at the statistics, we can notice that nowadays the aging population phenomenon is a global one, some countries being more affected than others. It was considered that the ageing persons, born during the “baby-boom” period, and its consequences on the socio-economic systems will also become one of the major challenges for the European Union countries in the coming decades since the proportion of people of working age in the EU-28 is shrinking, while the relative number of those retired is expanding.

One of the most important side-effects of the ageing process would consist in increasing the public expenditure on pensions, social security and health services (Gavrilov and Heuveline, 2003). This will raise the overall burden on the working population, who will have to pay higher taxes. Moreover, the ageing population phenomenon is a great challenge for the health care systems, some analysts even raising the concern that the mankind may become a “global nursing home” (Eberstadt, 1997). Meanwhile, a decreasing percentage of working age persons will cause shrinkage of the labour force that will generate a reduction of the economies’ growth rates (Feldstein, 2006). Apart from all these consequences, in a 2002 report, the United Nations pointed out that the ageing population raises two other major risks: the intergenerational conflicts caused by the changes in the patterns of resource

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distribution between the generations and the failure of repartition of the pay-as-you-go pension systems.

Looking for solutions to reduce the dimensions of this phenomenon, some analysts considered immigration a potential measure against the effects of ageing. For example, Pollard (1973) or Espenshade *et al.* (1982) noticed that, under certain conditions, immigration leads to a stationary population with a stable age structure. However, more recent studies have shown that, in order to maintain certain parameters of the population structure, the number of immigrants has to be very high (Feld, 2000; Saczuk, 2003). Moreover, Bermingham (2001) argued that aging will led to economic, social and cultural disruptions that can only partially be offset by immigration. Therefore, we may assume that the impact of migration flows on the age structure of the host population is very limited. However, some other factors, such as fertility rate, socio-economic environment, legislation etc., could positively influence the ageing process, especially in the long run.

To determine the evolution of the ageing population phenomenon we should analyse a number of indicators, such as the fertility rate and population pyramid, the median age, the percentage of population over a certain age and the age dependency ratio (especially the old age dependency ratio). In order to see the global EU trend, it is required a general approach. However, it is also very important to determine if some regions are more affected by the ageing population than the other; therefore, it is necessary to make a detailed analysis of these indicators on the member states.

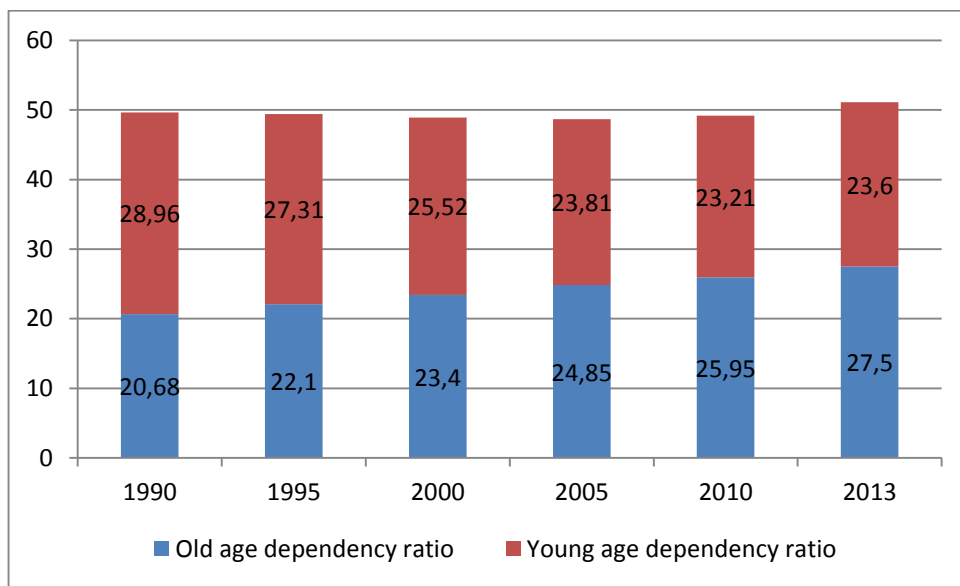
1. Demographic trends in EU – general approach

The data offered by Eurostat (2013) show that, in 2012, the young people, aged between 0 and 14 years old, represented 15.6% of the EU 28 population, the working-age persons (15-64 years old) – 66.5% and the senior citizens (65 years and over) totalled 17.9% of the population, with 0.4% more than in 2011. If we compare these values to those registered in 1960, we can notice that if in 1960 there were, on average, about three young persons aged between 0 and 14 years for every individual aged 65 or over (Lanzieri, 2011), this ratio became one to one in 2013. Considering the socio, financial and economic consequences of this evolution, it is very important to analyse the age dependency ratio.

According to the World Bank definition, the age dependency ratio is the ratio of dependents – people younger than 15 or older than 64 – to the working-age population (those between 15 and 64). If we analyse the total age dependency ratio (both the young and old-age dependency ratios) in EU, we find out that this percentage has risen during time, from 49.64% in 1990 to 51.1% in 2013. This

value indicates that, in 2013, there were approximately two working age persons that supported each dependent individual in the EU states. An interesting aspect regarding these values of the total age dependency ratio is that, if in 1990 the young age dependency ratio (28.96%) was much higher than the old age dependency ratio (20.68%), the situation has reversed in 2013: 23.6% compared to 27.5% (see Figure 1).

Figure 1 – Evolution of the dependency ratio (young, old and total age) between 1990 and 2013 in EU

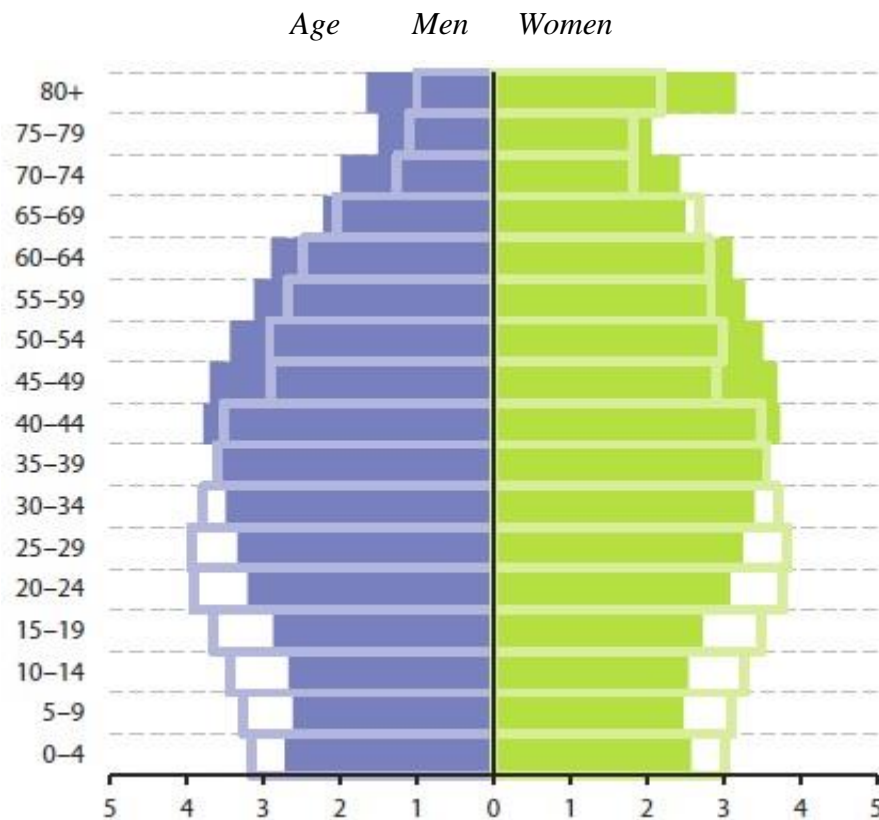


Source: Author’s own compilation and adaptation based on Eurostat databases – various years

These changes in the dependency ratios underline the fact that during the last years the fertility rate had low levels in the EU states (Eurostat, 2014a), generating a so-called “ageing at the bottom” phenomenon, visible in the population pyramid through a reduction at the base. The decreasing number of those people aged between 0 and 34 years old and the increasing population over 40 years old during the last two decades can be seen in Figure 2.

Together with the EU low fertility rates, an explanation for the current demographic situation could be the high fertility rates from some European countries in the 1960s, known as the “baby-boom period”: if the 1960 the fertility rate of the nowadays EU 28 countries was 15.2%, in 2012 this percentage decreased up to 10.4% (Eurostat, 2014a). Moreover, it was mentioned that longer schooling, the changes in the role of women in households together with the early retirement schemes have also contributed to the ageing population phenomenon (Carone, 2005).

Figure 2 – Age pyramid of EU 27 population in 1991 and 2011



Solid colour: 1991; Bordered: 2011

Source: Adapted from Eurostat (2013) Chiffres clés de l'Europe - Résumé 2013 de l'annuaire en ligne d'Eurostat <http://ec.europa.eu/eurostat/documents/3930297/5969654/KS-EI-13-001-FR.PDF/f10eec2b-7028-48c8-aabc-657bed85d553?version=1.0>

Therefore, if there will be no changes in the social, demographic, institutional and economic factors, the analysts assume that this situation will worsen in the coming decades. Thus, in the context in which the share of people aged 65 years or over in the total population is projected to almost double until 2060 and the number of people aged 80 years or over to almost triple, the old age dependency ratio is expected to substantially increase up to 53.5% in 2060 (Giannakouris, 2008). If we consider that the young age dependency ratio in EU is estimated to be 25.0% in 2060, we may assume that the financial pressure on each working age person will almost double.

The future ageing population trend can also be shown by looking at the median age. It is expected that the value of this indicator to rise for the EU-28's population from 41.9 years on 1 January 2013 (Eurostat, 2014b) to 47.9 years on 1 January 2060 (Lanzieri, 2011). This means that, if in 2013 half of the analysed population was older than 41.9 years, in 2060 half of the population will be older than 47.9 years. The analysts have noticed that the trend of the median age of the EU-28 states, between 1960 and 2060, presents an S-shape (Lanzieri, 2011): it has almost constant values in

the first decades, after which these values substantially increase and then they stabilise at a high level. The most concerning aspect is that the high speed at which the median age increased leaves less time to make socio-economic adaptations to the demographic changes.

In order to see which part of the EU will be more affected by the ageing phenomenon, it is necessary to analyse the demographic situation from each member state.

2. Comparative situation of the ageing population among EU states

According to Kupiszewska and Kupiszewska (2005), in EU the ageing population trend started in the Central and Eastern countries – especially Austria, Hungary, Czech Republic, Romania, Poland and Baltic states – after which the phenomenon extended to the West. Looking at the statistics, we can see that nowadays there is no such a clear delimitation of the ageing population according to the geographic regions. For example, in 2013, the Southern EU states recorded the highest share of persons aged 80, Italy being the leading country with 6.3% (Eurostat, 2014b). Meanwhile, among the EU member states, in 2012 the highest share of young people in the total population was noticed in Ireland (21.6 %), while the lowest share was in Germany – 13.2 % (Eurostat, 2013). The fact that Ireland is one of the EU countries with the youngest population and Germany has a more ageing population is also proven by the share of persons aged 65 or older in the total population: while Germany, together with Italy, had the highest proportions in 2013 – 20.6% and, respectively, 20.8% –, Ireland had the lowest share – 11.9 % (Eurostat, 2014b).

Since the beginning of the 21st century, the median age augmented in all the EU member states, the highest increases being recorded in Romania, Lithuania, Germany, Portugal and Austria. The level of the median age has confirmed once again that Ireland has a relatively young population while Germany has a relatively old population: in 2013, the values of this indicator across the EU countries ranged between 35.5 years in Ireland and 45.3 years in Germany (Eurostat, 2014b).

The median age of population is closely related to the fertility rate. So, as expected, Ireland, together with France, have reported in 2012 the highest fertility rates, being the only EU states with approximately 2.0 live births per woman (Eurostat, 2014a). By contrast, the lowest fertility rates in 2012 were recorded in Portugal, Poland, Spain, Hungary, Slovakia and Greece (approximately 1.3 live births per woman). A possible explanation for this large difference in the fertility rates could be found in the different impact of the nowadays crisis on the living standards of the EU states.

Another interesting finding is that, according to the data offered by CIA and World Bank for various years, the top five countries with the highest population growth between 2010 and 2013 were

Luxembourg, Cyprus, Ireland, Sweden and UK, while the highest decreases were registered in Lithuania, Latvia, Bulgaria, Romania and Greece.

In 2012, among the EU states, the total age dependency ratio reached the highest levels (of more than 51%) in Belgium, Denmark, Germany, France, Italy, Portugal, Finland and UK (Eurostat, 2013). However, we should consider that in some of these cases the high percentage was significantly influenced by the values of the young age dependency ratio, as it was the case of Belgium, Denmark, France, Finland and UK. Actually, when looking at the statistics of the old age dependency ratio we can notice a concerning situation in Germany and Italy, where the values were above 30%. Meanwhile, the lowest old age dependency ratios can be found in Ireland (17.2%), followed by Slovakia (17.5%), Cyprus (18%) and Poland (18.9%), as it results from Table no. 1.

Table 1 – Indicators of the age structure of the population in EU 27 and Croatia, in 2012

Countries	Median age (in years)	Young age dependency ratio	Old age dependency ratio	Share of population aged 80 and over
EU 27	41.2	23.4	26.2	4.8
Belgium	40.9	25.8	26	5
Bulgaria	42.5	19.4	27	4
Czech Republic	39.8	20.8	22.3	3.7
Denmark	40.6	27.4	25.7	4.1
Germany	44.6	20,3	31,2	5.3
Estonia	39.7	22.7	25.2	4.3
Ireland	34.5	31.7	17.2	2.8
Greece	42.1	21.7	29	5
Spain	40.3	22.2	25.2	5
France	40	28.6	25.9	5.4
Italy	43.5	21.4	30.9	6
Cyprus	35.7	23.9	18	2.9
Latvia	41.4	21.1	27.2	4.3
Lithuania	41.1	22.1	26.6	4.4
Luxembourg	39	25.7	20.3	3.7
Hungary	40.1	21.3	24.4	4.1
Malta	39.5	22.1	22.4	3.4
Netherlands	41	26.1	23.3	4
Austria	42	21.7	26	4.9
Poland	38	21.3	18.9	3.4
Portugal	41.9	22.6	28.9	5.1
Romania	38.6	21.6	21.3	3.2
Slovenia	41.7	20.5	23.9	4.1
Slovakia	37.4	21.4	17.5	2.8

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Finland	42.1	25	26.5	4.8
Sweden	40.8	25.6	28.4	5.3
United Kingdom	39.7	26.5	25.3	4.7
Croatia	41.5	22.4	25.4	3.7

Source: Adapted from Eurostat (2013) Chiffres clés de l'Europe - Résumé 2013 de l'annuaire en ligne d'Eurostat, <http://ec.europa.eu/eurostat/documents/3930297/5969654/KS-EI-13-001-FR.PDF/f10eec2b-7028-48c8-aabc-657bed85d553?version=1.0>

As mentioned before, the estimations regarding the future evolution of the EU demographic situation are not so optimistic. However, some considerable differences can be noticed among countries. Thus, from all member states, Giannakouris (2008) considers that only fourteen countries from EU-28 will have a smaller population on 1st January 2060, the highest decreases being in Bulgaria, Latvia, Lithuania, Romania, Poland, Estonia and Hungary. Despite these predictions, it is considered that the median age of the total population is likely to increase in all EU countries until 2060. However, Latvia and Romania are projected to have the highest median ages (Lanzieri, 2011), evidencing the eastward shift of the ageing process. Meanwhile, most of the Nordic and Western Europe countries are expected to have the youngest populations in the European Union. In this context, a study published in 2011 show that, in 2060, the percentage of the persons aged 60 or older in the total population will have the lowest values in Ireland (22%), United Kingdom (24.5%), Belgium (25.5%) and Denmark (25.5%)(according to CDE, 2011). On contrary, the highest levels will be reached in Latvia (35.7%), Romania (34.8%), Poland (34.5%), Slovakia (33.5%) and Germany (32.8%).

The idea according to which the Central and Eastern European Union states will be characterised by a high level of advancement of the population ageing process can also be found at Kupiszewska and Kupiszewska (2005), who argue that these countries will confront with an increased number of the old persons but also with a high old age dependency ratio. The idea is developed by Giannakouris (2008) who estimated that in 2060 the highest levels of old age dependency ratio (over 60%) will be in Poland, Slovakia, Romania, Lithuania, Latvia and Bulgaria, closely followed by Slovenia and Czech Republic. However, it is assumed that all the EU-28 countries will experience a considerable increase in the old age dependency ratio (in many cases more than double) in 2060, but the difference between the lowest and the highest ratio is expected to be of almost 30 percentage points.

Conclusions

Analysing the demographic indicators for the EU-28 we can notice that the ageing population phenomenon represents a concern for almost all the member states. Among the causes that have led to this situation could be mentioned the low fertility rate from the last decades accompanied by the “baby-boom” period from the 1960s and the longer life expectancy. The low fertility rates may be a consequence of the longer schooling, the change in the role of women in households together with the downturn of the socio-economic environment.

In terms of the old age dependency ratio and the share of persons aged 65 or older in the total population, the situation of Germany and Italy is clearly the worst among the EU-28 states. Moreover, Germany is also the country with the lowest rate of young people from EU and Italy has the highest share of persons aged 80 and over. Ageing process and its negative labour market consequences are also fairly advanced in Romania, Lithuania, Germany, Portugal and Austria, if we take into consideration the fact that these countries have registered the highest increases in the median age after 2000.

On the other hand, a relatively good situation from the demographic point of view could be found in Ireland, which has the highest rate of young people in the total population, the lowest share of persons aged 65 or older and the highest fertility rate, together with France. Meanwhile, Ireland, next to Slovakia, Cyprus and Poland, has the lowest old age dependency ratio in the EU-28.

Even if some analysts consider that the Central and Eastern European Union will be more affected by the ageing population in the coming decades, the estimations show that, no matter what the demographic indicator is considered, no EU country is expected to have a lower value in 2060 than nowadays. These projected values reflect an unprecedented situation in the demographic history: the population age distributions have the shape of reversed pyramids, with the oldest age groups bigger than the youngest ones.

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IN THE GLOBALIZATION ERA, WHICH ARE THE DETERMINANTS OF GROWTH?

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Abstract: *This paper aims to present the factors that determine the economic growth nowadays, in the globalization era. From geography and climate to innovation and training, these factors diversified depending on the evolution of the economy and economic thought. Because of enhanced mobility as a result of globalization, some of them have lost their importance, others have become fundamental. During the last two decades, hundreds of empirical studies have tried to identify the determinant factors of economic growth. Many researchers have tried to explain economic growth based on changes in these factors, but the results leave room for future analysis.*

Keywords: Economic growth, factors, theory, economy, research, development

JEL Classification: E20; O10, O30, O40

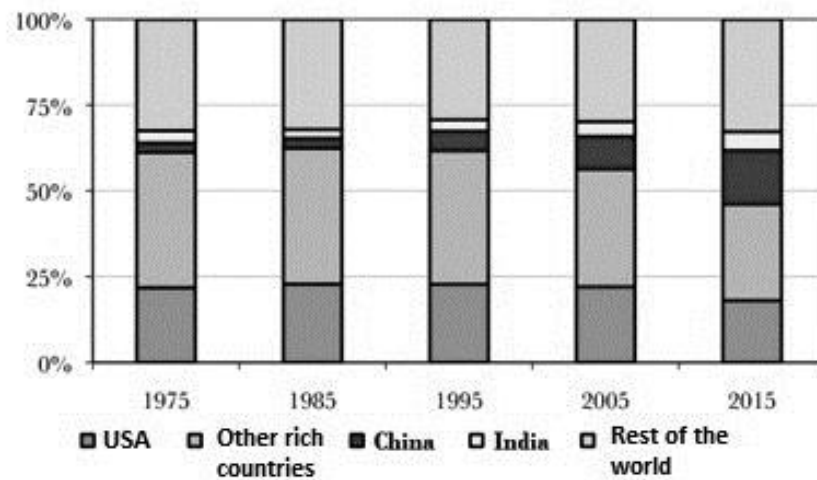
Introduction

Nowadays, world economy is still being dominated by rich countries. If we sum up the whole value of the goods and services produced in 2012 in the rich countries and compare it to the value of the world production, we will notice that almost 70% of this value is created in the high-revenue states in the OCDE. Even if we would adjust the calculations in order to eliminate the price differences, so that the rice would have the same price both in the US and China, this percentage of the countries with high revenues maintained to more than 50% in 2012.

This percentage is quite impressive, given that less than 15% of the world population lives in these countries. The production asymmetry towards Western Europe and the USA, and, more important, the persistence of this revenue distribution for more than 120 years, has determined the analysts to adopt the concepts of Core of developed economies and Periphery of the developing countries. This is about to change.

The world economy passes through a unique historical change. We are about to reach the moment when, for the first time in 120 years, the Periphery would produce much more goods and services than the Core. The economic power transfer can be only compared to the discovery of the New World and with the subsequent growth of the United States as an economic power center. But, as Ben Bernanke, the president of the FED, stated, the inclusion of the USA in the Core has lasted for centuries, while the recent economic power change began in the '80s and just 30 years later, we already see a significant change of the world economic environment.

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Figure 1 - Global GDP composition by countries and groups

Source: Fatas, A., Mihov, I., 2013, p.2

The Determinants of Economic Growth

During the last two decades, hundreds of empirical studies have tried to identify the determinant factors of economic growth. Moreover, the theories of economic growth do not totally explain this phenomenon. The problem is that the growth theories are, using a concept belonging to Brock and Durlauf, (2001), insufficient. This means that various growth theories usually are compatible with each other. For example, a theoretical approach assuming that commercial openness counts for economic growth is not logically contradictory to another theoretical approach that emphasizes the role of geography for economic growth. This theoretical opinions diversity makes it hard to identify the most efficient growth stimulation policies. The process that lays at the basis of economic performance is inadequately conceptualized and less understood due to the lack of a generalized or unifying theory and the blind way traditional economy approaches the problem (Artelaris, Arvanitidis, Petrakos, 2007).

Although this unifying theory is missing, there are more incomplete theories that discuss the role of different factors that determine economic growth. Two main theories can be distinguished: the neoclassical one, based on Solow's growth model, has emphasized the importance of investments, and, more recent, the theory of endogenous growth, developed by Mankiw, Romer and Weil (1992) has pinpointed the innovation capacity and human capital. Moreover, other explications have emphasized the non-economic significant influence (the conventional meaning) the factors have on economic performance. These evolutions have led to an approach that distinguishes between the "close" and "fundamental" (or "final") growth sources. The first one targets aspects such as capital accumulation,

work force and technology, while the last ones, target institutions, judicial and political systems, socio-cultural factors, demography and geography.

A wide range of studies have investigated the factors that lay at the basis of economic growth. By using various conceptual and methodological approaches, these studies have emphasized a different explanatory parameters set and have offered different perspectives on the economic growth sources.

Table 1 - Stages of economic development

Characteristics	Stages of economic development		
	Preindustrial, agricultural stage	Industrial stage	Postindustrial stage, based on knowledge
Dominant economic sector	Agriculture	Industry	Services
The nature of prevalent technologies	Labor and natural resources intensive technologies	Capital intensive technologies	Knowledge intensive technologies
The main consumed products	Food and handmade clothes	Industrial goods	Services and information
The nature of the production processes	Human-nature interaction	Human-machine interaction	Human-human interaction
Determinants of growth/welfare	Natural productivity (soil fertility, climate, biological resources)	Labor productivity	Innovation/intellectual productivity

Source: World Bank (2004), *Beyond Economic Growth - An Introduction to Sustainable Development*, Second Edition, <http://www.worldbank.org/depweb/english/beyond/global/chapter9.html>

Investments are fundamental for the economic growth, identified by the both growth theories, the neoclassic and the endogenous. However, within the neoclassical model, investments have an impact in a period of transition, while the endogenous growth model supports the permanent effect. The importance given to the investments by these theories has led to a high volume of empirical studies that examine the relation between investments and economic growth (for example, Kormendi, Meguire, 1985; De Long, Summers, 1991; Levine, Renelt, 1992; Mankiw, Romer, Weil, 1992; Auerbach, 1994; Barro, Sala-i-Martin, 1995; Sala-i-Martin, 1997a; Easterly, 1999; Bond et al, 2001; Podrecca, Carmeci, 2001). However, the results are not conclusive.

Foreign direct investments (FDI) have played a crucial role in the internationalization of the economic activity and represent one of the main sources of technological transfer and economic growth. This major role is emphasized in several models of the endogenous growth theory. The empirical literature that examines the impact of FDI on economic growth has given more or less consistent findings, revealing a positive significant connection between the two ones (for example Hermes, Lensink, 2000; Lensink, Morrissey, 2006).

Human capital is the main growth source in most endogenous growth models, as well as one of the key extensions of the neoclassical growth model. Knowing that the “human capital” concept

mainly refers to the accumulation by the workers of competences and know-how through education and training, most of the studies have evaluated the quality of human capital by using education-related variables (for example, the rates of school registration, Mathematics tests and scientific capacities, etc.). Numerous studies have given proofs that suggest that the educated population is a key determinant of economic growth (see Barro, 1991; Mankiw, Romer, Weil, 1992; Barro, Sala-i-Martin, 1995; Brunetti, Kisunko, Weder, 1998; Hanushek, Kimko, 2000). Though, there were other researchers that have doubted these findings, and, as a result, the importance of human capital as a determining factor of economic growth (for example, Levine, Renelt, 1992; Benhabib, Spiegel, 1994; Topel, 1999; Krueger, Lindahl, 2001; Pritchett, 2001).

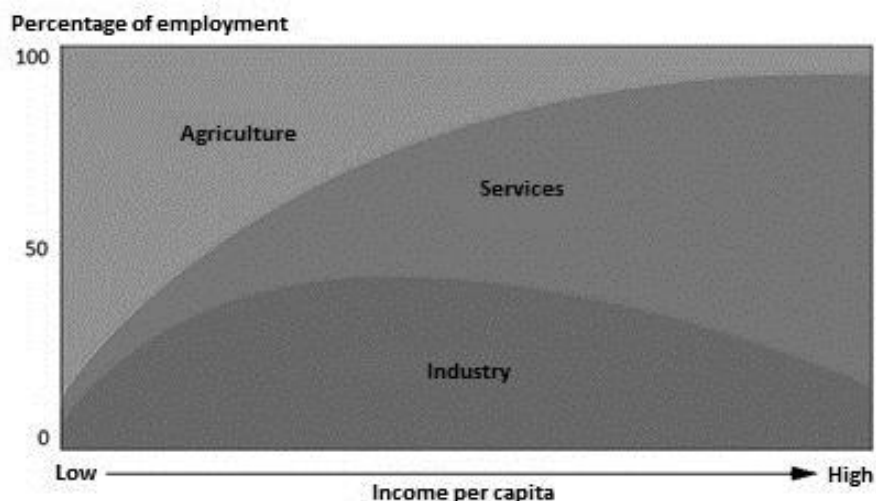
The simple idea behind the theory of factor accumulation is that greater inputs mean greater outputs. The capital is the oldest known determinant of economic growth: accumulation of capitals is translated as sustainable growth. But in the 1960s and 1970s, before the opening of the global economy, several emerging economies, especially India and China, next to Russia and the countries in Latin America, have shown that investments without openness, or investments without competition, lead to an immediate growth, but they have a negative long-term impact. In the mid of the 1990, the general belief was that the success of East Asia is due to factor accumulation (Young, 1995; Krugman, 1994). Recent studies show that this conclusion is incorrect: There were numerous capital investments in these countries, but it is more important that the commercial openness and towards investments and more than competitive exchange rates have supported productivity growth.

Another production factor (and the second growth principle of Lewis) is the human capital – knowledge and education. The theory of the important role of education has been developed just in the 1950s; empirical studies have been carried out just in the 1960s. Now, it is shown that the personal benefit of education is high, frequently very high. But nobody has claimed that education is not necessary for economic growth and development. In the middle of the 1980s, a special attention had been given to social revenues from education, especially from Romer (1986). Though its various production models have emphasized the fact that education generates positive results within the economy, at a lower scale it is difficult to determine which the effects are.

Despite these antitheses – there are moments when too much capital does not mean additional growth and when education does not have significant effects – a key aspect of the empirical analysis on growth is the establishment of the determinants of the accumulation of human and capital factors. What does attract investments and determines the enrichments of countries? Could the reallocation of work from traditional agriculture to the modern industry be one of the factors?

Agriculture has always been the starting point of economic growth, both for the western countries on the brink of the industrial revolution, and for the emerging economies of the 20th century. Lewis (1955) stated that the transition of one economy from agriculture to non-agriculture is a sine qua non condition of economic transformation and growth.

Figure 2 - Reallocation of labour during economic development



Source: World Bank (2004), *Beyond Economic Growth - An Introduction to Sustainable Development*, Second Edition, <http://www.worldbank.org/depweb/english/beyond/global/beg-en.html>

Cheap and unlimited resources are available in most of the countries right before the beginning of economic growth. In this moment, the ecosystem is balanced; the growth of productivity in agriculture is low, with individuals working in farms. The technological progress, in its interior or the exterior of agriculture, liberates the work. If this progress happens outside the economy, emigration determines the reduction of work in agriculture. In exchange, internal technological progress from the industry makes the work force leave the farm. In both cases, growth is accompanied by a decrease of the agriculture in the GDP economy.

The whole literature concludes that, in the incipient development stages, any additional growth in the economy is due to the reallocation of work from the agricultural sectors with low productivity towards non-agricultural sectors (industry and services) with high productivity. Barely in the last development stages, the accumulation of factors and technological changes started to contribute to a greater growth. This reallocation of factors was estimated by Robinson (1976) to reach 16-18% in the first stages of the emerging economies.

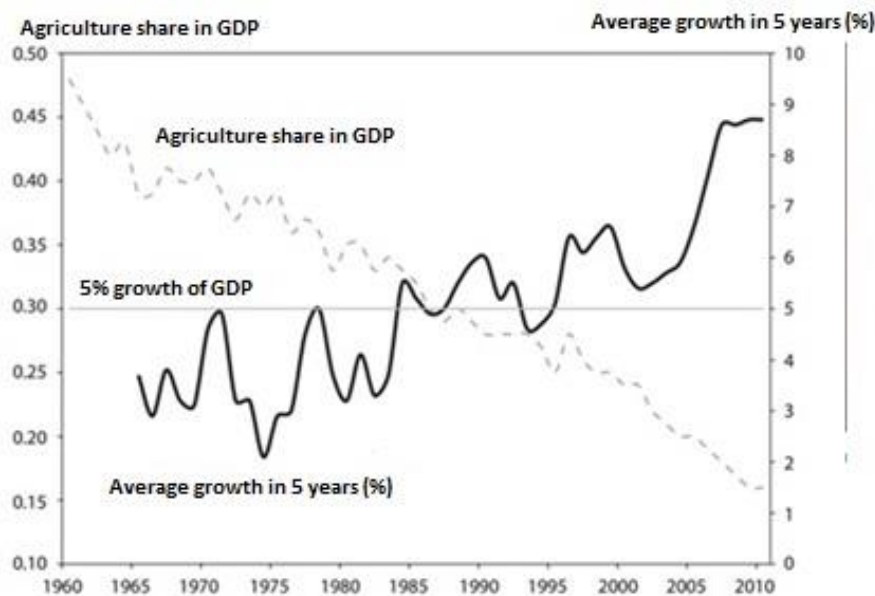
The theory of reallocation presents numerous implications for the evolution of economic growth and, thus, of the living standards. This reallocation of work force generates an S-shaped flow of revenues growth (and a revenue flow). In the beginning, the workforce in the low-productivity

agricultural sector (agriculture presents a yearly growth rate of 3%) gradually migrates towards high-productivity sectors (industry and services, with a yearly growth of 6%).

Initially, agriculture represented 60% of the output. Meanwhile, productivity growth and factors' movement determines the reduction of the percentage to barely 20% or less. At this level, the reallocation of the workforce ensures a reduced growth, and, while the decrease towards the lower curve of S is steep, it flattens at the base. This is the S-evolution of the revenues' level.

Within the reallocation theory, growth is modeled as a moderate average of the growth rates in industry and agriculture, the modelling being given by the percentage of each sector in the economy.

Figure 3 - Growth in India according to the theory of labour reallocation



Source: ***, (a.n.), Determinants of growth, Peterson Institute for International Economics, p.20

The figure above displays a simulation for India. In the first year, 1960, it is assumed that 55% of the real production came from agriculture, and the yearly growths of agriculture and non-agricultural sectors are 2.75% and 6% (these values are close to the ones found in the Indian economy in that period). These differential growth rates predict the evolution of agriculture and the whole GDP growth. In 2011, the percentage of agriculture was 17% and the GDP increased by 5.5%. Nowadays, these percentages are 16% and 8%. These applications of the reallocation theory show that India would have reached a GDP growth rate of 5% in 1983, with or without economic reforms.

Innovation and research-development activities can have an important role in the economic progress by increasing the productivity. This is due to the increase of technology use which allows the introduction of new and superior processes and products. This role has been emphasized by various

endogenous growth models, and the strong relation between innovation/R&D and economic growth was empirically confirmed by more studies (see Fagerberg, 1987; Lichtenberg, 1992; Ulku, 2004).

Economic policies and macroeconomic conditions have sparked interest as determining factors of economic performances (see Kormendi, Meguire, 1985; Grier, Tullock, 1989; Barro, 1991; Barro, 1997; Fischer, 1993; Easterly, Rebelo, 1993; Barro, Sala-i-Martin, 1995) as they can establish the frame where economic growth happens. Economic policies can influence many aspects of one economy through human capital and infrastructure investments, by improving political and judicial institutions and so on (though there is a debate on the policies that are more appropriate for growth). The macroeconomic conditions are seen as necessary conditions, but not sufficient, for economic growth (Fischer, 1993). Generally, a stable macroeconomic environment can favor economic growth, especially by reducing uncertainty, while macroeconomic instability could have a negative impact on economic growth, through its effects on productivity and investments (such as a greater risk). More macroeconomic factors which influence growth have been identified in the literature, but there is a special focus on inflation, fiscal policies, budgetary deficits and fiscal burden.

The analysis of the contribution of policy changes to growth is significant. It is generally accepted that the results of adopting negative policies, such as high inflation, are a major obstacle for growth. Another frequent recommendation in developed and emerging countries is the decrease of the financial deficit. Expected benefits vary, including a higher production efficiency, lower losses in the state owned enterprises and a lower eviction of private investments. The reduction of deficits is needed for the macroeconomic stability and sustainable growth. High financial deficits, financed through public credits, also determine an increase of the interest rate, creating an unfavorable environment for foreign investors.

Commercial openness has been largely approached in the economic literature as a major determining factor of growth performances. There are solid theoretical reasons to claim that there is a strong and positive connection between openness and growth. Openness influences economic growth through more channels, such as exploiting the comparative advantages, technology transfer and knowledge spreading, scale economies and competition exposure. The openness usually is evaluated through the proportion of exports in the GDP. There is a significant and growing empirical literature which studies the relation between openness and growth. Most of the literature has noticed that the economies which are more open to trade and capital flows have a higher GDP/capita and have developed faster (Dollar, 1992; Sachs, Warner, 1995; Edwards, 1998; Dollar, Kraay, 2000). But, more researchers have criticized the lustiness of these findings, especially due to methodological and

evaluation reasons (for example, see Levine, Renelt, 1992; Rodriguez, Rodrik, 1999; Vamvakidis, 2002).

As mentioned, trade has been long time considered a significant factor, if not the most significant, that supports growth: the comparative advantage offers security, and revenues maximization can be reached by improving trade. More emerging economies have adopted an autarchic, closed, soviet-like model after their independence, hoping for a rapid development. These countries have failed, having to open to foreign trade in order to recover from the disastrous situation caused by themselves. As many of them have grown faster than before, it has been concluded that “trade causes growth”.

The opposition to this assertion, came from some researchers such as Rigobon and Rodrik (2004), assumes that as openness can ease trade and trade can ease growth, the revers can easily be accepted. As economy grows, the demand for different products grows, causing the evolution of trade (more imports, thus more exports to finance imports). Thus, econometric models claiming that they show an increase of growth caused by growing trade could in fact show the reverse.

This problem can be econometrically solved by using identification techniques for the direction of the causality connection, by using instrument variables – variables that are correlated to one of the independent variables (trade) but not with the other (growth). The word “econometric” supposes an estimation of reality. Estimations are amenable to errors, and the existence of a possible error, no matter what its size is, allows both sides to claim victory. Protagonists claim that they have identified the problem, opponents say that the means are scarce. And the debate continues.

Commercial policy can be evaluated through its effects – trade percentage in the GDP – or through the instruments that influence the trade. These instruments refer to indicators and tariffs’ policy, strongly supported by statistics. In many cases, though tariffs were reduced and import protection was lowered, growth did not speed up. In other cases, growth was reported, though tariffs were high. Yet, no study has emphasized the fact that high tariffs lead to rapid growth after the Second World War.

The more external-oriented economies are, the richer they become – observation that is available no matter how deep we search in history. Though, the openness as an empirical concept has barely been studied in World Development Report from 1991, issued by World Bank. Starting from that year, numerous articles have been written and various indexes for the evaluation of economic openness have been developed.

Approaching economic openness is also debated. Researchers and politicians are afraid that reducing import tariffs would allow foreign companies, with modern methods and low costs, to

dominate their competition and delay industry development and national expertise. As proofs of the paid price, these present the experience of emerging economies from the colonial era. During that era, free trade was predominant, yet the emerging economies had revenues lower than their colonial masters. Furthermore, there are proofs that high tariffs have helped developed economies grow faster.

Sachs and Warner (1995) developed an evaluation method for openness, subsequently also treated by Wacziarg and Welch (2003). Others proposed some variants, amongst we can mention Hall and Jones (1999), and, more recently, Chinn and Ito (2008). None of these variants of openness evaluation is not statistically significant for most of the growth models. The importance of the openness variable grows after the introduction of exchange rate evaluation variables. This is consistent with the theory: openness doesn't have a strong effect if the exchange rate is over appreciated. But if the economy is open and the exchange rate is competitive, then growth will be reported.

Balassa (1964), counsellor of the World Bank and academician, has emphasized the advantages of export-based growth, due to competitive exchange rates, politically correct term for an under evaluated currency. There are differences between the export based growth strategies and the ones based on the under evaluation of the national currency. In the first case, it is about a classic industrial policy, when certain companies or sectors are chosen by the government to become internationally competitive (to be successful exporters). The effects of currency under evaluation do not limit themselves just at certain exporting companies or sectors, but they spread across the whole economy. The regularization of the market is carried out through trade and by exposing the national companies on international markets, thus cancelling the possible political and economic distortions that might emerge as a result of public favoritism or state intervention.

Theoretically, it is difficult to apply a deliberate devaluation policy of the national currency as it implies changes of the balance of trade, and not only on short term. It is practically impossible for the rich countries to apply such a policy taking into account the volume of the exchange market, but emerging economies can modify their exchange rate by operating on this market. There is a series of problems regarding the influence of authorities on an exchange market of billions of dollars carried out through selling and buying low amounts of money. Even if they influence the nominal exchange rate, they will not influence the rate that counts – the real exchange rate.

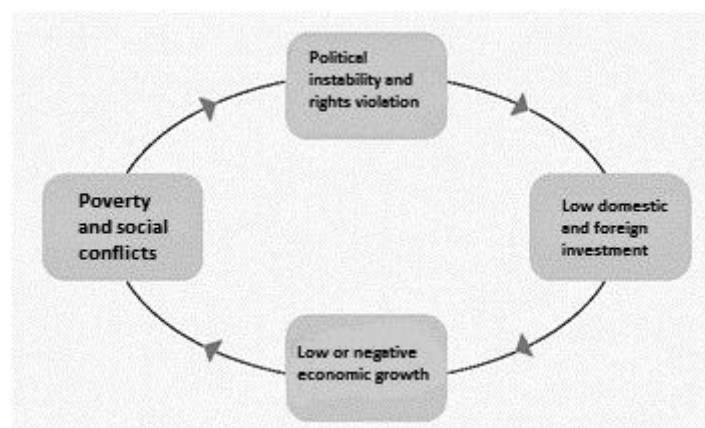
And the theory regarding the impact of a competitive exchange rate on growth raises problems. The debates target the methodology used in order to calculate a balanced exchange rate, the first step in evaluating the competitiveness of an exchange rate. Furthermore, the balanced exchange rate is not constant – it modifies with the passing of time and from one development stage to another.

An important growth source emphasized by the literature is the institutional frame. Though the importance of the role institutions play in modelling economic performance has been recognized many years ago (Lewis, 1955; Ayres, 1962), such factors have been recently empirically examined in a more consistent way (see Knack, Keefer, 1995; Mauro, 1995; Hall, Jones, 1999; Rodrik, 1999; Acemoglu, Johnson, Smon, Robinson, 2002). Rodrik, 2000 emphasizes five key-institutions (ownership rights, regulating institutions, macroeconomic stabilization institutions, social insurance institutions and conflict management institutions), which do not only directly influence economic growth, but which influences other growth determinants, such as physical and human capital, investments, technical changes and the economic growth processes. The quality of institutions is frequently evaluated in the literature based on the repudiation of the contracts by the government, of expropriation risk, of corruption, of ownership rights, of the rule of law and bureaucratic quality (Knack, Keefer, 1995).

The theory which states that institutions play a significant role for growth is based on two arguments. First of all, political freedom (ownership rights) reduces uncertainty and supports entrepreneurship, amongst others, causing a higher efficiency and a high growth. Second, political freedom allows the making of more sensitive decisions. But the Eastern Asia states have strongly developed under authoritarianism. On other side, for each Eastern Asian dictator whose economy reported growth, there are 10 African or South-American dictators whose state economy did not grow.

The relation between political factors and economic growth has been brought to the fore by Lipset, (1959), who examined the way economic development affects the political regime. Ever since, research regarding these aspects has proliferated, emphasizing the fact that the political environment has a significant influence on economic growth (Kormendi, Meguire, 1985; Grier, Tullock, 1989; Lensink, Bo, Sterken, 1999; Lensink, 2001).

Figure 4 - The vicious circle of political instability



Source: World Bank (2004), *Beyond Economic Growth - An Introduction to Sustainable Development*, Second Edition, <http://www.worldbank.org/depweb/english/beyond/global/beg-en.html>

Elementary, political instability would grow the uncertainty degree, discouraging investments, and, in the end, hampering economic growth. The democracy degree also is associated to economic growth, even if the relation is much more complex. Democracy can baffle or support economic growth, depending on the various channels through which it operates (Alesina, Grilli, Milesi-Ferretti, 1994). During the last years, a series of researchers have tried to evaluate the quality of the political environment, by using variables such as political instability, civil and political freedom and political regimes. Brunetti (1997) distinguishes four revealing political variable categories: governmental stability, political violence, political volatility, and the subjective understanding of policy.

Recently, a rising interest has been expressed on the way different socio-cultural factors can affect economic growth (see Granato, Inglehart, Leblang, 1996; Huntington, 1996; Temple, Johnson, 1998; Landes, 2000; Inglehart, Baker, 2000; Zak, Knack, 2001; Barro, McCleary, 2003). Trust is an important variable that can be included in this category. Trustful economies are expected to pose stronger incentives for innovation, physical capital accumulation and rich human resources development, all of them being essential for economic growth (Knack, Keefer, 1997). Ethical diversity might in charge have a negative impact on economic growth by reducing trust, increasing polarity and promoting the implementation of policies with neutral or even negative effects on growth (Easterly, Levine, 1997). Other various socio-cultural factors have been examined in the literature, such as ethnic structure and fragmentation, language, religion, beliefs, social/ethical conflicts and attitude, but their relation with the economic growth seems to be indirect and unclear. For example, cultural diversity can have a negative impact on growth as a result of social uncertainty emergence or even of social conflicts, or a positive effect, by creating a pluralist environment in which cooperation can develop.

For example, these theories postulate that Eastern-Asia countries have gained success due to the adoption of Confucianism, or that some western economies are wealthy due protestant ethics. In his studies, Sala-i-Martin (1997a, 1997b) finds that Confucianism was appropriate for the higher growths, placing it on the second position as a determining factor after economy openness. Yet, this hypothesis is confusing: Confucianism is associated to authoritarianism and economic freedom. In Bhalla (1997) book, Confucianism is also associated to an impaired exchange rate. As a result, though cultural and religious theory can be interesting, it has rarely been empirically strong. If the world would be separated in four groups according to the existing religions (Catholicism, Protestantism, Islamism and the others), the preponderant catholic and Islamic societies have a reduced growth rate (lower than the world average by 0.9%). Protestant societies have an increase lower than the world average by 0.5%,

but the percentage is not statistically significant. But the religious variables become insignificant when other variants are introduced in the analysis.

Nobel Prize Laureate Kuznets Simon (1955) has made the study of the growth effect on economic equality popular again. He claimed that, alongside development (growth), inequality has accentuated in the beginning, in order to get lower subsequently, effect known as Kuznets' Curve. Testing this theory has sparked the interest of growth economists, especially in the 1970-1980s. The conventional conclusion is that inequality is not statistically fickle, but it influences growth.

For 42 emerging countries, in whose cases data regarding inequality for at least 2 years during the 1970 was analyzed, it has been noticed that there are proofs supporting the conclusion that initial high inequality leads to the reduction of the subsequent growth. These preliminary results must be carefully treated, as data about inequality is not available in a consistent base for the same country. Moreover, for certain countries, there is just data regarding consumption inequality, while for others, the only available data regards revenues inequality, difference that can influence the results of the analysis.

The important role geography has in economic growth has long time been recognized. Yet, during the last years, there has been a high level of interest in these factors, though they were accordingly formalized and integrated into models. Researchers used numerous variables for geography, including the latitude absolute values, the distances from the Equator, the area up to maximum 100 km from the seashore, medium temperatures and rainfalls, soil quality and ecology of diseases (Hall, Jones, 1999; Rodrik, Subramanian, Trebbi, 2002; Easterly, Levine, 2003). A series of recent empirical studies (Sachs, Warner, 1997; Bloom, Sachs, 1998; Masters, McMillan, 2001; Armstrong, Read, 2004) claim that natural resources, climate and topography have a direct impact on economic growth through the effects on (agricultural) productivity, on economic structure, transportation costs and competitiveness. However, other researchers (for example, Rodrik, Subramanian, Trebbi, 2002; Easterly, Levine, 2003) noticed the lack of the geography impact on growth based on the analysis of institutions.

Table 2 - Average increase of income per capita in a number of economies in 1960-2012 (%)

Country	1951-2012 (%)
<i>World</i>	3,2
<i>Developed economies</i>	2,3
Germany	2,9
Japan	4
United Kingdom	1,9
USA	2
<i>Developing economies</i>	3,4

IN THE GLOBALIZATION ERA, WHICH ARE THE DETERMINANTS OF GROWTH?

Brazil	2,4
China	5,2
India	3,2
Korea	5,1

Source: ***, (a.n.), *Determinants of growth*, Peterson Institute for International Economics, p.16

The problem represented by the lack of growth in Africa in the postcolonial era (after 1960) has led to the hypothesis that “geography is to blame for” (Landes, 1998). This thesis claims that the countries close to the Equator have a natural disadvantage compared to the ones that are far from the Equator, which are richer as they have a more tempered climate and a better soil, which determines a higher productivity, thus growth. The tropical climate is favorable to diseases and less appropriate to work, slowing down the economic development. In other words, these economies inherit an impediment which explains the reduced growth during sub-Saharan Africa’s history.

Variants of this theory use various geographical variables, such as latitude, tropical weather number of days, the number of days with freezes, minimum temperature, minimum monthly rainfalls and maximum temperature. These variables are not the empirical constant - sometimes they are significant, but not always very important. The most frequently met variable is the latitude and there are numerous examples of economies with significant growth located near the Equator which could make the whole theory doubtful. Singapore, which is located on the Equator, has one of the greatest growth rates. Kerala, the most southern state in India (10 degrees northern latitude) is the most developed state, with social indicators comparable to the western economies. Even in Africa, Ghana and Uganda grow faster than Lesotho and Mali, though they are closer to the Equator. The list can go on, with results showing that latitude (and other geographic variables, such as temperature and rainfalls) is not important when explaining the short or long term growth differences.

The relation between the demographical trends and economic growth has sparked interest, especially during the last years. Yet, numerous demographical aspects still remain unexplored. Amongst the examined ones, population growth, population density, migration and age distribution seem to have a major role for the economic growth (Kormendi, Meguire, 1985; Kelley, Schmidt, 1995; Barro, 1997; Bloom, Williamson, 1998; Kelley, Schmidt, 2000). The fast rhythm of population growth, for example, could have a negative impact on economic growth through the effect on the investment and saving behavior and on the quality of human capital.

Although population growth could represent an impediment for growth, the volume of active individuals (workers’ ”stock”) is a positive fact. The argument is simple and direct. In a period of growing population, the future workers “stock” quickly rises. During the transition period, when birth

rate decreases, the number of the depending ones lowers. The lowering of the births also supposes a higher percentage of the employed women, a growth of savings and investments, thus growth.

There are two hypotheses that lay at the base of the above mentioned theory. First of all, and the most important, the workplaces' development rhythm gets faster in order to answer to the employment needs of the workers. Second, the female labor force participation rate can vary from a country to another. In India, the female labor force participation in the urban area is just 25%, though higher than the last decade, when it was just 15%. The growth of the female labor force participation is a positive phenomenon for the emerging economies, which determines the adoption of macroeconomic policies for economic growth and occupation.

Population structure also has significant influences on the economic growth. A numerous active populations is considered to be determining for growth, while a population with many ones depending on, young and old persons, is seen as an impediment. Population density in change can be positively related to economic growth, as a result of specialization improvement, knowledge spreading and so on. Migration would affect the growth potential of both receiving countries and the left ones. Again, results are not conclusive, as there have been no studies to report a (strong) correlation between economic growth and demographical trends (for example, Grier, Tullock, 1989; Pritchett, 2001).

The importance of the middle class has been studied by Aristotle, and, further, by John Stuart Mill, Thomas Malthus, Karl Marx and Barrington Moore (though the last two ones had a different approach of the subject compared to the first three ones). Briefly, middle class positively influences through its engagement to economic reforms and the equitable competition conditions. Middle class supports the for its interest: the safest way to benefit from them is by recognizing their worth, and the sine qua non condition of the middle class mentality is its engagement to education and work.

Who represents the middle class? According to Bhalla (2002), the line that separates the middle class, like the poverty threshold, is absolute and identical for all countries. It is calculated as a weighted average of the highest poverty thresholds or the poverty thresholds in the western rich economies (and Japan). Within these economies, by definition, the poverty threshold separates the poor ones from the "unpoor" ones. Furthermore, the limits of the middleclass are the ones that separates the "unpoors" from the rich ones, the rich ones being the ones with 10 times more revenues than the "unpoor" ones.

In 1996, based on prices, the daily poverty threshold/capital in the developed countries was 8,19\$. In 2011, this threshold reached 11,20\$; for a four individuals family, the revenue reached 16350\$. The rich ones are the ones with revenues that are at least ten times than the poverty threshold, namely 163500 \$, for a family with four members.

Does the size of the middleclass have effects on growth? Yes, and it is emphasized by the analysis of the 1980-2011 period. Each 10% growth of the middleclass since 1980 determined a yearly growth of 0.3%. And panel data for a period of 5 years display the same effect.

Conclusions

Economic growth has been evaluated from simple to complex, depending on the evolution of society. From simple models, explained by geography, to econometrical models, that include a rising number of variables, researchers have tried to emphasize which are the factors that support economic growth, but also its effects on society and environment.

Even though economic growth supposes the rise of living standards, some researchers contest its effects on the environment. Policymakers target a sustainable growth, which is to ensure high revenues for individuals, but they must also take into account the needs of future generations. Thus, resources used for the actual growth must be carefully managed so that the future generations would succeed in satisfying their own needs. A balance between growth and consumption must be maintained for the future society not to be affected.

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INTERNATIONALIZATION OF HIGHER EDUCATION IN EMERGING EUROPE. A DIACHRONIC PERSPECTIVE

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Abstract: *The dynamics and implications of internationalization vary quite considerably among different regions and countries, depending on the history and structure of their Higher Education systems. With a target to become the most competitive and dynamic economy in the world, Europe has scaled academic mobility, partnerships between the European Research Area and the world's top universities. The aim of this paper is to present some considerations regarding the internationalization of academic space in emerging European countries; more specifically it is an analytical review of the opinions on the phenomenon of internationalization in diachronic perspective of its development, in order to distinguish the structural problems at the level of interference, of the internationalization strategies before the economic crisis in the academic phenomenon. It can be a point of view in order to prove (argued by some causal relationship) that the academic Emergent Europe manifest itself in a differentiated manner, even if the strategies are common.*

Keywords: Internationalization, Emerging Europe, Higher Education, Bologna Process, mobility

JEL Classification: I23, I29, P36

Introduction

It is widely recognized that the epistemological and ontological-axiological power belonging to a paradigm for current reform of Higher Education (HE) can not constitute the *sine qua non* conditionality to impose a new contemporary paradigm. There are two safe ways: the ability of the new paradigm to respond to accumulated anomalies of previous reforms cycle and the ability to integrate the new socio-economic realities that are emerging at national, regional or global level. According to Altbach (2010), the strategic role of HE is to seek solutions to the inherent challenges and opportunities brought by globalization and the emergence of a truly global University, not only plans to compete worldwide in exchange of resources (teachers, researchers, students, infrastructure). Also, the strategic role is not only a response to aggressions of emerging economies that generated asymmetric interdependencies within metamorphosis of academic paradigms. Uneven economic development, with asymmetric consequences in the global academic landscape has led to a social mobility marked by variations and diversity, differences between educational systems and therefore the academic world is not called just to respond to change, but also to initiate changes. Outsourcing benefits through internalization redesigned the university education functions, and although HE is increasingly perceived as a commodity to be traded, it should be noted that international academic

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landscape in the 21st century society is driven and revolves around paradigms of internationalization, Americanization, Europeanization and globalization. (Deem, 2008).

The process of globalization and the construction of a united Europe, the knowledge society, the increased dynamic of labor markets and capital flows, human resources and information, visible gaps between regional education systems in Europe countries, multiplying "factorial" of HE providers, the increasing global competition between and / or among universities - these are key elements in what I could afford to be called the domino effect between the Bologna Process and the triumph of values.

With the ambition to become the most competitive and dynamic economy at a global scale, Europe has scaled the academic mobility, cooperation in quality assurance, partnerships between the European Research Area and the world's top universities. Given that it was *the cradle of University* by streamlining the provisions of the Bologna Process with full roll in the Lisbon Strategy in the context of internationalization, with position as *sine qua non* element on a global scale, inextricably linked in the amalgam of research and performance demanded by a knowledge based society, Europe is cheering *in-ad-per se* the *domino effects* in the global academic structure.

In the following, we present some considerations regarding the internationalization of the European academic space, especially the so-called Emerging Europe states; more specifically it is a scoring key opinions on the phenomenon of internationalization in diachronic perspective of its development, without it exhaustive treatment (the literature is generous on this topic) in order to distinguish, in a comparative manner, the structural problems at the level of interference, of the internationalization strategies before the economic crisis in the academic phenomenon of emerging markets of Europe.

1. Internationalization - some considerations of theoretical background

The concept of internationalization, for a very long period of time was associated or related to globalization, europeanization, westernization, americanization, terms that have received attention from researchers of different academic disciplines from the last decade of the last century and although phenomena have been widely discussed, interpretations of these concepts still differ among scientists. Held *et al.* (2004), for example, emphasizes persuasive and, from our point of view very realistic, that "*there is no universally agreed definition for globalization*". In addition to the complicated boundary and coherent use of these terms, concepts, processes is difficult due to the complexity of studying inter-relational dynamics involved. With regard to contextual factors, they

can be used to identify general trends (e.g. *society europeanization* or *globalization of the economy*), and for certain policies (European HE policy, national policy of internationalization in HE) and activities that promote the internationalization of HE (exchange students, internationalization of curricula etc.).

The globalization of human society and dynamic role of HE in this process is an important reason for the development of human society (Wit, 2013). Teichler (2004), Scott (2005), Altbach (2006), Wit (2008), Knight (2008), Leask *et al.* (2011) and others have described in detail the complex relationship between globalization and internationalization in HE.

According to Scott (2005, p. 14), the distinction between internationalization and globalization is not categorical, since they overlap and are interrelated in every way possible. Frans van Vught *et al.* (2002, p. 117) states that "*In terms of practice and the perceptions, the internationalization is seen like closer traditions, well established, on international cooperation and mobility to core values of quality and excellence, while globalization means more competition, pushing the concept of HE as a product sold, refusing the concept of HE as a public good.*" But in recent years, the term of globalization was replaced by internationalization in the public debate on HE, resulting at the same time, a shift in semantics and meaning of the phenomenon: „*the term tends to be used for any supra-regional phenomenon related to education academic and/or any global scale, corresponding to HE characterized by market and competition.*" (Teichler, 2004, p. 24).

Although different accents and connotations can be seen and it can be said that the general perception is that globalization is a social, economic and political process to which HE is responding, while the internationalization is understanding how to the HE is responding and acting in this process. The common denominator of the opinions is that globalization is an external process affecting HE. Scott (2005) believes that HE institutions are agents of globalization, while Marginsons (2000) argues that universities are the most globalized institutions, although other researchers often claim the national character of HE. These opinions do not necessarily contradict each other, only the starting point in the analysis of different researchers. As places that produce and transfer the knowledge, HE institutions are global. On the other hand, the same institutions of HE, as argue Van der Wende (2001, p. 254), are incorporated belong to the nation-state, they are strongly shaped by national context, especially because most of them are funded by governments.

During the last 600 years there have been a few significant periods of cross-border student and scholar flows and the emergence of few university-based intellectual hubs attracting them – for example, in England, Italy, and Germany (Zgaga, 2008). In the last 50 years, a number of institutions, mainly in North American and Europe, expanded their cross-border educational and research

networks, some widely so. Yet, the majority of HE institutions remained internationally unengaged or minimally so. Even among engaged institutions student opportunities for education abroad, exposure to internationalized curricula and courses, and faculty cross-border research activity extended to the few, not to the many. Mainstreaming access to cross-border learning and research/discovery was not generally the objective (Huzdik, 2013, p. 48).

Internationalizations has a long history in HE (Wit, 2002). However, its shape and purpose has undergone many changes since the Middle Ages. Various phases in the internationalization of HE and various types of response to an increasingly mobile and diverse student and staff population have been described in the literature (e.g. Vita, 2007).

Internationalization is not a static phenomenon, but a constantly evolving process. The main stakeholders: international organizations, national governments, regions, institutions of HE, faculties and students, have to understand and react to this process and define their niche in it.* “*Internationalization is changing the world of HE, and globalization is changing the world of internationalization*”, remarks Jane Knight (2008, p. 1). She (2008, pp. 22-24) also states that we can see now basically two components evolving in the internationalization of HE.†

When we talk about internationalization, it is important to distinguish the question of why we are internationalizing the HE, from what we mean by internationalization. Many documents, policy papers and books refer to internationalization, but do not define the why. The global HE landscape and its international dimensions have been changed over the past five years, even more than in the decade before. The global competition for talent, the emergence of international branch campuses, the growing of complexity in the cross-border activity are just some of the issues that until recently were not at the forefront of HE debates. The dynamics and implications of internationalization vary quite considerably among different regions and countries depending on the history and structure of their HE systems, national and institutional resources, and their respective geopolitical locations and aspirations.‡

*Over the past ten years one can note a whole new group of terms emerging which were not actively present before in the debate about internationalization of HE. These are much more related to the cross-border delivery of education and are a consequence of the impact of globalization of society on HE: borderless education, education across borders, global education, offshore education and international trade of educational services.

† One is *internationalization at home* – activities that help students to develop international understanding and intercultural skills. Activities under this at home dimension are: curriculum and programs, teaching and learning processes, extra-curricular activities, liaison with local cultural/ ethnic groups, and research and scholarly activities. And the second movement is that of *internationalization abroad*, including all forms of education across borders: mobility of students and faculty, and mobility of projects, programs and providers.

‡ Generally, internationalization processes and activities are mediated through and involve six sets of actors, namely, international actors, bilateral actors, interregional actors, regional actors, sub regional actors, and national actors. Each category can be further subdivided and the composition and relative power of the various actors varies among regions and countries.

Internationalization over the years has moved from a reactive to a pro-active strategic issue, from added value to mainstream. It also has seen its focus, scope and content evolve substantially. Increasing competition in HE, the commercialization and the increased cross-border delivery of HE, have challenged the value traditionally attached to cooperation: exchanges and partnerships. At the same time, the internationalization of the curriculum and the teaching and learning process (*Internationalization at Home*) has become as relevant as the traditional focus on mobility (both degree mobility and mobility as part of the home degree).

2. “Internationalization of Europe” or “Europeanization for All”?

In presenting Europe as a case study, we have to keep in mind that Europe is not a homogeneous region; still less is its education homogeneous, as the rationales behind the *Bologna Declaration* on the European space for HE of 1999 make manifest. This implies that when analyzing internationalization and globalization of HE in Europe, one has to take account of several important issues, such as national and regional differences, diversity of the language, different educational traditions and systems, diversity of stakeholders, and the coexistence of universities and a strong non-university sector. The historical analyses, which shows the diachronic perspective of the phenomenon of internationalization in Europe, accredit certain stages of development of the phenomenon (see *Table 1*), which are similar phases, in general, the main actions of the European Commission (EC) on HE.

Table 1 – The main phases of internationalization in Europe

Autor	Phases
Brouwer	<ul style="list-style-type: none"> • 1951-1972, the phase of incidental cooperation; • 1972-1977, the preparatory phase of European co-operation in education; • 1977-1986, the first phase of implementation of educational programmes, mainly based on intergovernmental cooperation; • 1986-1993, the second phase of implementation, mainly based on action by the EU; • 1993 onwards, the first phase of implementation of the EU Treaty for EU co-operation
Field	<ul style="list-style-type: none"> • 1957-1973, education and training received relatively little interest; • 1974-1985, development of some interest but mainly in vocational training; • 1986-1992, education becomes a significant area of policy for the EU;

- | | |
|--|--|
| | <ul style="list-style-type: none"> • 1992 onwards, development of a more radical approach seeking to promote the concept and practice of the learning society |
|--|--|

Source: Wit, 2001, p. 43

As Wit (2001, p. 43) indicates, to understand the present European situation, it is essential to place current developments in a historical perspective. Macro-historical changes affecting the international dimension of Europe's HE were: the emergence of nation-states in the nineteenth century and earlier; Europe's historical role in the world, in particular its role in colonization and in the process of de-colonization; the impact of HE in countries such as France, Germany and the United Kingdom on HE in the rest of the world; the recent trends in European integration; the collapse of the former Soviet Union and associated East-West rapprochement; the recession and financial constraint; the „massification” of HE; the dissolution of some structures and blocs and the emergence of others. Some characteristics, by decades, can be associated in historical development of internationalization in Europe:

- the 1950s and 1960s: Laisser-Faire
- the 1970s: the first steps to policies of europeanization in education
- the 1980s: the great leap forward (individual mobility, the research and technological development programmes, the mobility programmes, the involvement of the EC with the rest of the world)
- after 1996: towards harmonization of systems and structures

The novelty of the last two decades, the *Bologna Process* has generated profound and multidimensional transformations, both within the European Union (EU) and globally.*

The challenges imposed by globalization made entirely Bologna Process as a real metamorphosis of the old medieval-academic concepts and values that generated new axiological dimensions in the knowledge society: the coexistence of cultures, the increasing of competition of academic mobility of students, the university autonomy, the sustainability and the identity of universities, the quality assurance, the rediscovering and redefining the relationship between knowledge and vision in terms of three-dimensional set of skills, the creativity and research.

* Of course, about the objectives and principles, provisions, development, the implementation and the Process effects have written many pages in the manner *pro* or *contra*, diachronic and synchronic, analytical and synthetic, official and journalistic, into socio-cultural, economic, managerial reflexes, at the level of authority and "through the eyes of students", but what is relevant is that the entirety of, the Bologna Process created and resized European values, he transplanted more or less on a global scale, imposed a new way of thinking and designing the entire system of HE. By developing a common set of coordinates and reference points and the mutual recognition of accreditation has created new conditions for cross-border mobility. The result was as: forming a European dimension that facilitate compatibility and comparability of national systems of HE, ECTS as "convertible currency", European cooperation in quality assurance, student-centered learning and "outcomes" based skills.

The meeting between Humboldtian heritage (which even today underpins the American academic system) and the Bologna Process, requiring unanimous ubiquitous existence of values and integrated structures in different national contexts, has led to various dilemmas and paradoxes (NVAO, 2011a, NVAO, 2011b). European educational policy generated by the Bologna Process, grafted on variations of philosophies of life long learning, towards the learning society, triggered multiple and quasi-governmental reforms, for scientific quality assurance and internationalization.

The Bologna Process and emerging *European HE Area* (EHEA) are not only transforming substance and structure of systems and institutions, but have become powerful drivers for change with many countries enacting reform agendas that go beyond the action lines of the process (Reichert 2009).

With the ambition to become the most competitive and dynamic economy on a global scale, Europe has scaled the academic mobility, the cooperation in quality assurance, the partnerships between the European Research Area and the world's top universities (Zgaga, 2006).*

Given that was *the cradle of the University*, Europe has increased today the visibility of its mobility programs. And this is circumscribed relationship between the overall qualifications, governance and academic autonomy, the attractiveness of the EHEA, the diversity of society (Knight, 2010).

Undoubtedly, the internationalization of European academic mobility generated by specially designed programs, led to development of integrated services that are more professional. These systems, initially focused on student mobility, today focuses attention on the phenomenon of europeanization through internationalization (Vught *et al.*, 2002).

Significantly, the objectives of “common” European national systems adopted in 2001, were developed by *Education & Training 2010* initiative, whose characteristic - *wider opening up to the world* - is the current major political, policy actions multiplied by the *Europe 2020 Strategy*.

The *Erasmus Programme is one that marks the most direct and concrete way the phenomenon of internationalization in Europe.*[†] Was initiated by the European Commission 25

* The EU's objective of becoming the most competitive economy at globally level in 2010 did not succeed, and not only because of the effects of the recession and sovereign debt crisis, because in the years 2006 and 2007 the R&D funding has not progressed, the average 1.9% of EU GDP allocated to this area remaining constant for almost 5 years. The objective of allocating 3% remained without interest even after 2012, related fields such as financial support mobility of students, teachers and researchers by *Erasmus Mundus Programme* knowing even a substantial cut.

† The European Mobility Policy is contextualized by a series of programs and measures While Erasmus is the most important instrument for countries in the program Lifelong Learning, Tempus and Erasmus Mundus Mobility provides conditions for non-EU countries, although countries eligible for these programs extend beyond the SEIS. CEEPUS program supports academic mobility and cooperation between universities in Central, Eastern and South-Eastern Europe, and the same sub-program NORDPLUS, subvention cooperation and collaboration in the Nordic-Baltic region of Europe.

years ago, in a time that the Commission even not had a mandate on education, the community only had eleven members and the Iron Curtain was still present. The programme continues to have a great impact on the development of Europe and its HE. *

The proposal by the European Commission for a new “*Erasmus for All*” programme reflects this global approach to Erasmus and the ambition of the Commission to extend the scope and targets of the programme: an additional 5 million students studying abroad between 2014 and 2020.

While the Bologna ministers of education in their 2012 biannual meeting in Bucharest kept firm to their aspiration to have 20% mobility, the figures though are showing a different picture. In most countries the number of mobile students is still below 5%. There is an increased concern about the focus on numbers and percentages, which moves away from the need to concentrate on the content and the quality of the international experience.

3. Effects of internationalization in Emerging Europe

The opening-up of Central and Eastern Europe has had an enormous impact on HE in this region and on co-operation between institutions of HE between Western and actual emergent states from Central and Eastern Europe.† As Kallen (1991) points out, academic co-operation and exchange already existed before this opening-up and was developing rapidly in the 1980s, in particular with Poland and Hungary. Co-operation concentrated mainly on staff exchanges and far less on student exchanges. From the point of view of the regimes in these countries, academic cooperation was mainly a political issue and little institutional or personal autonomy was possible. Although, as Cerych (1996) states, the opening-up of Central and Eastern Europe had a global effect, the increase in academic mobility with Western Europe was quantitatively greater than with any other area. Regional proximity and the political push by national governments and the EC formed the basis for this strong inner-European academic co-operation. The EC, through its so-called PHARE programme, opened the way in 1989 for several forms of co-operation, both in R&D and in education.

* In 1987, 3244 students spent a part of their study in another member country. Three million students have followed their example in the past 25 years and the number of countries has grown from 11 to 33, including non-EU members such as Croatia, Iceland, Lichtenstein, Norway, Turkey and Switzerland. The budget of the programme for the period 2007-2013 is EUR 3.1 billion. More than in numbers of mobile students, the impact of the programme has been on the internationalization and the reform of HE. *Erasmus Programme* has paved the way for the reform of European HE under the Bologna Process, has been a pilot for its study point scheme ECTS, and was an initiator for the opening up to countries in Central and Eastern Europe to EU-membership, as it is for current aspiring candidate members. The programme stimulated both national governments and institutions of HE to develop European and international strategies. See more at: http://ec.europa.eu/education/tools/lp_en.htm#tab-4

† On 16 July 2012, the IMF has labeled emerging economies of the countries of Europe: Bulgaria, Estonia, Hungary Latvia, Lithuania, Poland, Romania and. See more about that at: <http://www.imf.org/external/pubs/ft/weo/2012/update/02/index.htm>

An example is the „*Trans European Mobility Programme for University Studies*”, the *Tempus* scheme.*

HE systems and institutions in Emergent Europe were profoundly challenged by political turmoil of the late 1980s and early 1990s, but not only. As it has been argued by Zgaga, (2007, 63, 2009), it is possible to differentiate between a political transition as the challenge of an open and pluralistic society, and a global transition as the challenge of the “*emerging knowledge society*” (here we do not enter in detailed definition). The former was mainly a characteristic of the former socialist countries in Europe while the latter is much more complex. If the deep changes seen in the educational systems of the former socialist countries in the 1990s are only understood as “something” linked to a political transition (e.g. as a necessary adaptation of education to the new political order) then they are being misinterpreted and not understood in their true complexity.

There have certainly been some common features in HE across all these emergent countries. Everywhere, for example, numbers of students started to grow immensely in the early 1990s and, since then, access to HE has been a constant issue of policy and public debates. Very soon, private institutions started to appear: it was a totally new phenomenon almost everywhere. State budgets were decreasing very fast and public universities entered serious troubles; they started to charge student fees what was also unimaginable before.

HE systems in this group of countries had the same (and one) “forefather”; transformation of the former Soviet empire into independent states brought new challenges also to their HE systems. Not only in these countries but everywhere, national systems of HE, an idea and a reality which emerged in Europe in late 18 and early 19 century (but did not exist before), confronted with the requirements of the emerging knowledge society and globalization trends at the end of 20 century. Even the biggest national systems understood that, for their own sake, they have to open and to cooperate with others, to search for “comparability and compatibility”.

However, as Zgaga (2009) assert, challenges and opportunities of building EHEA have had specific echoes in European emerging countries. For various reasons, these specific echoes have been accompanied by a specific semantics. In political and public discourses terms like “European standards” or “European requirements” contain a specific “value code”. It can be positive and stimulative, but not always and everywhere. Thus, the Bologna Process has been sometimes transformed into a tool of convincing, motivating and pushing forward various actors in HE as well as broad public. After such translation, “Bologna” sounds as something what “they expect from us”, as a sort of “directive from above”: “We must do it because it is European”.

*http://eacea.ec.europa.eu/tempus/programme/history_tempus_en.php

In the following, for reasons of systematization,* we present, for each of the seven emerging countries of Europe, some of the most important actions and effects of those measures by which governments have tried to adapt to the internationalization strategies promoted in the whole Europe.

Table 2 – The main action, effects and responses of emergent European country to internationalization

Country	Actions, effects, responses
Bulgaria	<ul style="list-style-type: none"> • Bulgaria is among the 30 European countries included in the second phase of SOCRATES II programme. The finances for the implementation of the Programme run up to 1 850 000 000 Euro for all activities and a seven years period 2000-2006. • With the 2004 amendments of the Law on HE Bulgaria gave the HE institutions opportunity to sign on their own contracts with international higher schools that concern mobility of students and academic staff. The main obstacle for outgoing student mobility is the insufficient financial support. Universities are not rich enough to set aside significant support funds, so availability of national support funds for student grants become very important. • The mobility of the academic teachers is provided by special funds held by the government, but there is a need of greater financial support for mobility grants. • The incoming student mobility has risen for the academic year 2005-2006 alone, by 29%, and that of the lecturers by 48%. Bulgaria has signed so far 60 bilateral arrangements, agreements and programmes for cooperation and exchange in the field of education and science. • Students participating in Leonardo da Vinci programmes as a share of vocational students at ISCED 3 was increased with 0.6% in 2010 and 0.8% in 2013. Erasmus inbound students as % of student population in host country: 0.3% in 2013. Inbound international degree mobile students as % of student population in the host country: 3.5 in 2010 and 3.9 in 2013.
Estonia	<ul style="list-style-type: none"> • Since 1998, Estonia has participated in the Erasmus cooperation programme of the European Union. The mobility of researchers which often includes tuition is rather common in Estonian universities. A systematic exchange of lecturers began in connection with the Tempus Phare assistance programme of the EU and later due to the implementation of the Erasmus cooperation programme of the EU. • The biggest factor influencing student mobility out of the country is socio-economic discrepancies. The legislative framework supports mobility schemes - student loans are portable, there are very few signals regarding failure of academic recognition of studies abroad. For inward mobility in 2006 there were first steps made on the national level in order to bring in third country nationals for PhD studies. • The national strategy for HE internationalization foresaw the agreement of code of conduct for internationalization by HE. Agreement on Good Practice in the Internationalisation of Estonia's HE Institutions is signed by 21 Estonian HEI-s active in

*In another paper (*Emerging Europe between the Bologna Process and the post-crisis internationalization*) I presented, in a more extensive manner, with related statistical data, in what has evolved academic internationalization of emerging European countries in the period 2006-2013, at the level of student mobility and the effects of economic and financial crisis on this mobile. See at: <http://www.upm.ro/ccci3/CCI-03/Eco/Eco%2003%2054.pdf>.

	<p>internationalization (including public, state and private institutions). The Agreement has taken into account the principles prescribed in OECD/ UNESCO Guidelines.</p> <ul style="list-style-type: none"> • Students participating in Leonardo da Vinci programmes as a share of vocational students at ISCED 3 was increased with 2.6% in 2010 and 3.5% in 2013. Erasmus inbound students as % of student population in host country: 1.6% in 2013. Inbound international degree mobile students as % of student population in the host country: 1.8 in 2010 and 2.3 in 2013. • The amendments to the Law on Foreigners that came into force on 1 September 2013 aim to simplify the process for students from non-EU countries to access HE in Estonia, enabling them to work during their studies and to enter into employment after graduation. One important amendment abolishes the requirement for students who already have been issued residence permits for studying to apply for work permits.
Hungary	<ul style="list-style-type: none"> • Since the 2001-2002 academic year, the Ministry of Education has provided additional support for social purposes so that talented but socially disadvantaged students be not excluded from the Erasmus programme. Students are free to use the additional support during their stay abroad to cover any expenses necessary for their studies. For the 2003 round of the Leonardo da Vinci programme, the Ministry of Education earmarked an amount of about 420.000 EUR for additional support from the development and training part of the Labour Market Fund. • In the Erasmus programme, students coming to Hungary may separately apply to participate in a 1 or 2 month intensive language course organised by the host institution before they start their placement in Hungary. • The two-way mobility of academic staff is asymmetric: the intensity of outward mobility well exceeds that of inward mobility. The main obstacles to inward mobility are: scarcity of financial resources, limits posed by a special language. • Students participating in Leonardo da Vinci programmes as a share of vocational students at ISCED 3 was increased with 1,4% in 2010 and 2013 too. Erasmus inbound students as % of student population in host country: 1.0% in 2013. Inbound international degree mobile students as % of student population in the host country: 4.0 in 2010 and 4.6 in 2013. • In July 2013, the national rules for setting the number of fully state financed university places changed: to attract the most talented students, the quota system was replaced by minimum score requirements per study programmes that applicants have to achieve and admission also depends on the programme capacities of HE institutions. In 2013, 57 544 students (74.5 % of all) were admitted to state funded programmes and 56 913 (77% of all) in 2014. • An important objective in modernising and internationalising HE is to create vocational training at higher levels.
Latvia	<ul style="list-style-type: none"> • Student and staff mobility has grown during the years of Bologna process, but the growth is slow. Student mobility would more or less fit the Bologna goals, if 10% of students had the possibility to complete a study period abroad. In practice it means that every year at least 2% of students should complete a study period abroad. • The main obstacle for outgoing student mobility is the insufficient financial support available for student grants. Universities are not rich enough to set aside significant support funds, so availability of national support funds for student grants become very important. Concerning incoming students there still is insufficient interest to come for

	<p>studies to Latvia. The main obstacles are the language and also the fact that Latvian universities are not widely enough known internationally, so they are not always seen as attractive by the foreign students.</p> <ul style="list-style-type: none"> • To facilitate student mobility from Latvian HEI the government allocated 203,950 EUR for Erasmus student grants for the academic year 2003/2004 and 217.390 EUR for the academic year 2004/2005. For the year 2003/2004 this national support has given 32% increase of Erasmus student mobility. • In Erasmus Programme the number of incoming teachers is higher than the number of outgoing teachers. To make it more balanced and to facilitate teacher mobility, government allocated financial support from national sources for Erasmus teachers 31.019 EUR for the year 2003/2004 and 42.790 EUR for the year 2004/2005. Staff mobility for longer periods unfortunately may sometimes lead to brain drain. Mobility for short periods is growing intensively since there are less funding obstacles to travelling. • Students participating in Leonardo da Vinci programmes as a share of vocational students was increased with 1.3% in 2010 and 2.1% in 2013. Erasmus inbound students as % of student population in host country: 0.9% in 2013. Inbound international degree mobile students as % of student population in the host country: 2.9 in 2013. • The HE reforms announced in 2012/2013 and concerning accreditation, financing, consolidation of institutions and internationalisation are progressing more slowly than initially planned. A new HE financing model, based on European best practice, which would aim to increase quality, internationalisation and labour market relevance of HE, is currently being prepared in cooperation with experts from the World Bank. The new funding model is planned to be implemented by 2016.
Lithuania	<ul style="list-style-type: none"> • Lithuanian HE institutions actively participate in the international collaboration: take part in various international programmes, sign agreements with foreign institutions of HE, based on which the mechanism of international exchange of students, scientists and teachers operates. The exchange programmes were also induced by a successful implementation of such international programmes as – Tempus, Phare, Copernikus, Framework, and ACE. • Lithuanian HE institutions have been involved in the Socrates programme since 1999/2000. Initially, 12 universities took part in the programme. Since 2000/2001 all HE institutions have become involved in the Socrates. • Starting with the year 2002 the annual national budgeted allocation for Socrates/Erasmus programme has been 9.1 mln.litas (2.63 mln. EUR). 6.2 mln. litas (1.79 mln. EUR) go directly to mobile student grants. All these exchange students are also eligible for extra support through the Lithuanian State Science and Studies Foundation as well as bank loans on the individual basis. • A senior academic staff member is allowed to take a sabbatical every five years and, increasingly, this time is being used for the stay at an institution abroad. The grants they receive usually are from international agencies and foundations. Socrates/Erasmus programme plays an important role in the whole scheme of the teaching staff mobility. The HEI receive 0.4 mln. litas (0.1 mln. EUR) of extra funding for Erasmus teaching staff mobility. There are no obstacles for the staff coming to Lithuania for the short duration stay. • Students participating in Leonardo da Vinci programmes as a share of vocational students at ISCED 3 was increased with 2.8% in 2010 and 3.9% in 2013. Erasmus inbound students

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	<p>as % of student population in host country: 1.1% in 2013. Inbound international degree mobile students as % of student population in the host country: 1.5 in 2010 and 1,8 in 2013.</p> <ul style="list-style-type: none"> • The action plan for internationalisation of HE for 2013-16 was approved in 2013. Its aim is to identify the main areas in which internationalisation of HE institutions and the development of Lithuanian (or Baltic) studies abroad can be promoted, and to strengthen ties with Lithuanians and those of Lithuanian origin living in other countries. In view of the very small number of vocationally oriented HE programmes, the government has increased funding for maths, science and technology faculties, reduced the number of HE institutions and introduced external evaluations of these institutions.
<p>Poland</p>	<ul style="list-style-type: none"> • In 1990 Polish students have begun to visit HE institutions of EU member states. This date marks Poland and Hungary's entry into the TEMPUS Programme whose aim is to serve as a non-return EU help destined for HE systems in countries of Central and Eastern Europe. In the whole period circa 13,000 students were granted scholarships to foreign HE institutions in various EU member states. • Principles of student mobility worked out through the SOCRATES/ Erasmus Programme are first and foremost focused on the student's good interest and highly facilitate his/her studies in HE institutions of the EU member states. • Participation of Polish academic teachers in the Erasmus Topic Networks has similar advantages and it seems that Polish teachers understand it more nowadays. Among partners of the Topic Networks functioning in the 1998/1999 academic year, Polish HE institutions hardly appeared, whereas in the current year Polish institutions were mentioned as the Network partners over 100 times. • The benefits of academic teachers mobility, are increasingly obvious. This form of education is weakened due to a shortage of funds and minor importance of teaching achievements in the assessment of a teacher's work. • Particular attention was given to measures increasing inward student mobility: the development of new courses in widely spoken EU languages; arrangements making International Relation Offices in HEIs more efficient so that they could provide better services to foreign students. However, despite gradual improvement, the disproportion between outward and inward mobility is still substantial. • Students participating in Leonardo da Vinci programmes as a share of vocational students at ISCED 3 was increased with 0.5% in 2010 and 0.6% in 2013. Erasmus inbound students as % of student population in host country: 0.4% in 2013. Inbound international degree mobile students as % of student population in the host country: 0.9 in 2010 and 0.2 in 2013. • Poland belongs to the group of countries that come most of the students SEIS, along with Germany, France, Russia, Ukraine, Italy, Slovakia and Greece.
<p>Romania</p>	<ul style="list-style-type: none"> • Student and teaching staff exchange programs were set beginning with 1991 within the TEMPUS program between Romanian universities and universities in EU countries. Starting with the academic year 1990/1991, several Romanian universities have offered complete study programs in foreign languages like English, French and German, along with the education in Romanian. The teaching staff and the support material for learning have been prepared with technical assistance from partner universities in Great Britain, France or Germany and with financial support

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| | <ul style="list-style-type: none"> • HE institutions in Romania have been involved in Socrates and Leonardo da Vinci programs starting 1997. After 1998, over 9,000 students were granted mobilities within the Erasmus program. During the academic year 2002/2003 45 universities participated in ERASMUS activities, involving approximately 2,400 students. • The Black Sea Universities network was created in 1997 upon a Romanian initiative in order to develop co-operation among universities from member states of the Economic Cooperation of the Black Sea area, in the field of education, science. • Starting with 1998 Romanian universities have taken part in projects developed within the CEEPUS Programme. After 1998, over 1500 students and teaching staff have been involved. During the 2002/2003 academic year, 16 universities have taken part in 18 such networks. For the academic year 2003/2004 the sum allotted for Erasmus mobilities was 3.100.000 EUR and 3.122.308,38 were spent and a number of 3005 students have participated in mobility programmes. • In the academic year 2003/2004, 807 Romanian exchange teaching staff was involved in mobilities and in the academic year 2002/2003, 330 foreign teaching staff came to Romanian universities. • In the case of Romania, the best example of portability is the regional portability of social support for mobile students within the regional exchange program CEEPUS. It is based on a multilateral agreement between participating countries and has as objective the promotion of university networks. • Students participating in Leonardo da Vinci Programmes as a share of vocational students at ISCED 3 was increased with 0.2% in 2010 and 0.3% in 2013. Erasmus inbound students as % of student population in host country: 0.2% in 2013. Inbound international degree mobile students as % of student population in the host country: 1.3 in 2010 and 2.4 in 2013. • The internationalisation of Romanian universities is a slow process, with few active partnerships with foreign universities. |
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Source: Selected data, structured combined and adapted from Bologna Process – European HE Area. National reports (<http://www.ehea.info/article-details.aspx?ArticleId=86>), European Commission, Education and Training Monitor (2012, 2014), European Commission (2014), EACEA/Eurydice (2010, 2012), OECD (2010).

Conclusions

How we seen, the studies on internationalization in HE are extremely numerous and are oriented towards general approach or the structural analysis of different aspects that constitute the essence of the phenomenon of internationalization *in integrum*. In addition, it becomes very obvious that the interpretation of such internationalization as a phenomenon, activity and effect of globalization, include more than the mobility of students and academic staff, the range of problems that are generated by the phenomenon in question knowing a multiple approach for Emergent Europe since 1990s.

The relationship between internationalization, national policy, institutional and regional policies overall HE, even leading to qualitative leaps in this strategic area of emerging markets of

Europe. And this, because the international activities of universities in emerging Europe are no longer considered like at missing and auxiliary level, but have become regular and systemic character. High demand for highly skilled people in developed countries promoted the migration of skilled workers from emerging to developed economies.

The emerging European countries contributed to even broader diversity and to the enrichment of the existing “European treasury” of the “old” member states. However, a splendid rainbow of diversity often brings further questions.

However, despite diversities between as well as within European countries, the Bologna Process has had an enormous impact to new member countries. In last few years, a large number of cooperation projects with “old” and “new” members of the Bologna Process have been running within this framework addressing key topics e.g. developing quality assurance in HE, implementing new degree structures and ECTS, strengthening mobility of students and staff etc.

Since the early 1990s, post-communist European countries have achieved similar development goals. Democratization, integration with the EU, the development of bilateral and multilateral relations, and the economic and political transformation of financial systems, were the most popular achievements of long-term development strategies of the analyzed countries.

The themes of globalization, knowledge economy, EU integration, quality, and efficiency shaped the HE discourses in this period, and expanded the concept of the university mission.

A university was expected to implement simultaneously a variety of functions: generate knowledge, transmit it effectively and efficiently, respond to the needs of the labor economy, educate citizens, and promote democracy. The discourses of national emancipation, de-sovietization and integration with Western European nations underscored transition reforms in emergent Europe.

What we wanted to emphasize in the above considerations (absolutely not exhaustive in relation to the actual reality of the phenomenon of internationalization in Emerging Europe), is that, on the one hand, the emerging countries of Europe have adapted, diachronic differently to the phenomenon of internationalization, even if they had to apply the same common strategy, and on the other hand, that this adaptation is highly dependent on the differences in the economic, social and cultural needs of each nation separately.

Of course, all views expressed are not disparate from those we have expressed in other studies and should be seen as a continuation of their research so that in future, what we have presented above can become starting points for more extensive research.

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MONETARY POLICIES AND INDUSTRIAL FLUCTUATIONS IN EAST EUROPEAN COUNTRIES

Mihaela IFRIM*

Abstract: *Industrial fluctuations are closely related to the evolution of relative prices of produced goods and resources involved in production activity. Industrial fluctuations, as an expression of forces manifested in the real economy, are caused by changes in individuals' consumption and investment decisions, produced within expansionary monetary policies. The ease of obtaining a bank loan in the context of decreasing interest rates and of larger amounts of money caused an increase in individuals' demand for goods resulted from longer, capital intensive production processes. The rise in prices of intermediate and capital goods in a faster pace compared to the increase in prices of consumer goods is doubled by the increase of the share of higher order industries in the structure of production. The objective of this paper is to analyze changes in industrial structure of Eastern Europe countries within the policies of quick access to monetary resources. The analyzed states (Bulgaria, the Czech Republic, Hungary, Poland and Romania) are part of the European Union and have autonomous monetary policies, meaning that they have not yet adopted the common currency. In all economies analyzed, we find approximately the same patterns of monetary expansion and industrial fluctuations.*

Keywords: monetary expansion, business cycle, capital goods industry, consumer goods industry, East European countries

JEL Classification: E22, E23, E32, E43

Introduction

Production activities in different industries are the expression of necessary resources' availability and of consumers' demand for specific goods. The availability of resources involved in production, understood in the context of scarcity, is reflected through investors' actions that use their monetary resources to attract and hire factors of production. The demand for goods obtained in different industries is, in its turn, influenced by the preferences of individuals, their incomes and the prices of substitutable or complementary goods. The changing preferences of individuals, technical progress, the depletion of some resources and the discovery of others are obvious assumptions for changing the productive structure of an economy. Beyond these natural phenomena, an important cause of industrial fluctuations is the monetary expansion, easy access to monetary resources. Monetary resources are essential, both in terms of employing factors of production and in terms of consumption. The monetary growth boosts, in the same time, investments and consumption, intensifying competition between those bidding for hiring scarce resources. Therefore, the factors of production are requested both in production activities far away from final consumption and in activities that directly serve it. Monetary expansion increases the number of investments in economy,

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entrepreneurs' calculations being based on signals transmitted by changed prices. Change in relative prices is evidenced by growth of capital goods and intermediate goods prices, with a higher rate than the growth of commodity prices. Industries in the early stages of production intensify their pace of activity, being affected to a greater extent by the economic crisis. The same is true for the prices of capital goods, which recorded a more pronounced decline compared to the prices of consumer goods. The relationship between monetary growth and industrial activity, expressed through the structure production and the network of relative prices is a major component of business cycle theory. We intend to analyze this relationship in the case of five countries in Eastern Europe, since 2004 to 2015. We took into account their quality of emerging countries belonging to the European Union and their autonomous monetary policies.

1. Theoretical and methodological framework

The paper is built on the pillars of the Austrian business cycle theory. The relationship between goods of different order (Menger, 1871) and the role of capital in productive processes length (Böhm-Bawerk 1889) were completed by the theory of money and credit (Mises, 1912) and the structure of production of Friedrich von Hayek (1931), composing the business cycle theory. Growing money supply causes changes in terms of relative prices, stimulating investment processes. Many of these investment decisions would not have been taken in the absence of interest rate change, the latter being responsible for the relationship between preference for present consumption and preference for future consumption (Garrison, 1996). At the same time, easy access to resources will stimulate consumption, which will mean simultaneous lengthening and ascension of the triangle described by Hayek (2008, p. 231). The effect will be the occurrence of phenomena like overconsumption and malinvestments (wrong oriented investments), which will place the economy away from the production possibilities' frontier (Garrison, 2001). The threat of inflation and the central bank's decision to raise interest rates will head the economy to crisis, when it becomes obvious that monetary resources cannot substitute the real resources' scarcity (de Soto, 2011), (Rothbard, 2009). Contraction will eliminate erroneous investments, at the cost of significant loss of capital. The business cycle is in fact the reaction of the real economy's productive forces to monetary expansion. The mirage of social welfare is opposed by the contractionary forces of the real economy (Rothbard, 2009).

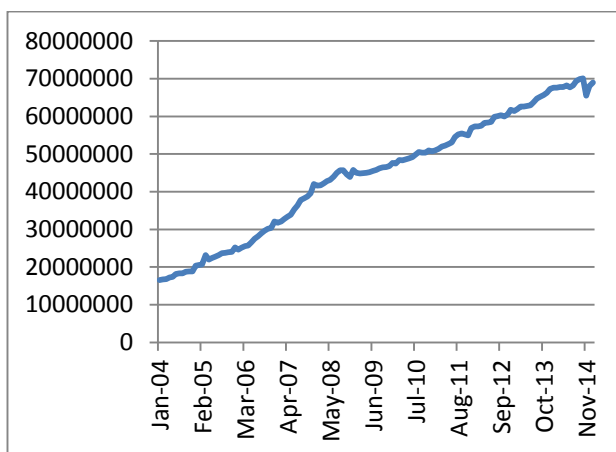
The paper combines elements of qualitative approach, based on economic logic and deduction, with quantitative elements, which have the role to illustrate the theory enunciated. The diversity of

national data sources, even in a context of relative assumed standardization involves the risk of heterogeneous information.

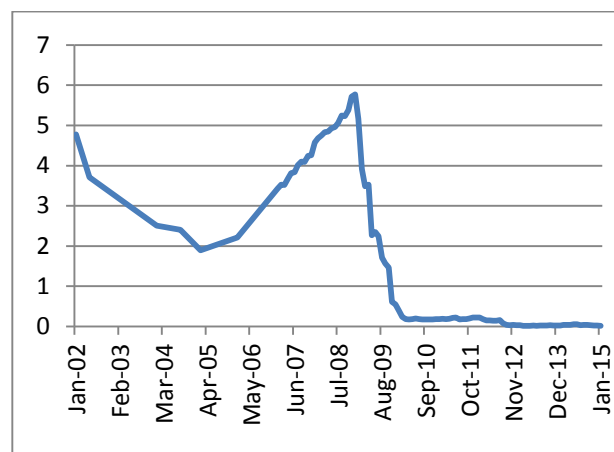
2. Monetary expansion in East European countries

Eastern European economies were aligned, since 2003, the expansionary trend of monetary policy adopted by most developed countries. This trend is visible through the upward evolution of monetary aggregates in the context of decreasing interest rates, as can be seen in the figures below.

Figures 1, 2 – Bulgaria, Broad Money Supply M3, thousands BGN, 2004-2015 and Base interest rate, 2002-2015



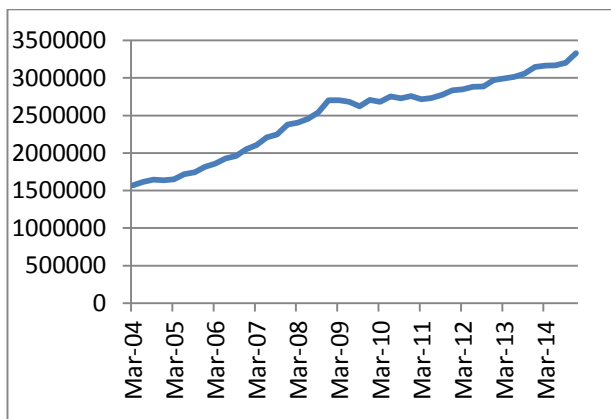
Source: author representation based on data drawn from Bulgarian National Bank, Monetary Statistics



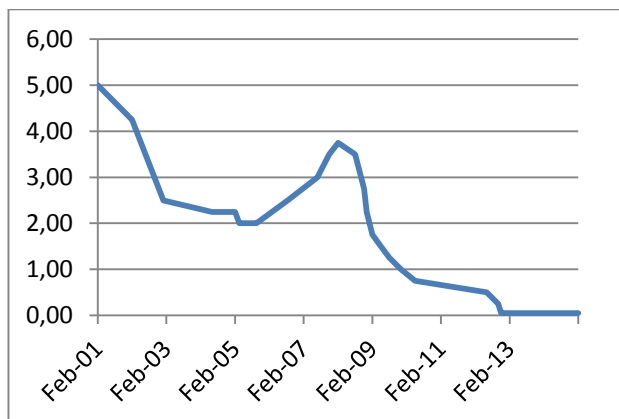
Source: author representation based on data drawn from Bulgarian National Bank, Interest Rate Statistics,

Since January 2002, the interest rate decreased in Bulgaria from 4.78% to 1.89% in February 2005. The increasing thereafter until the peak in December 2008, of 5.77%, prepared Bulgaria's entry into recession in the summer of 2009. The money supply continued to grow, although at lower paces, and after this time. Within a decade, the broad money supply rose in Bulgaria more than 3 times.

Figures 3, 4 – Czech Republic, Broad Money Supply M3, millions CZK, 2004-2015 and Key interest rate, 2001-2015



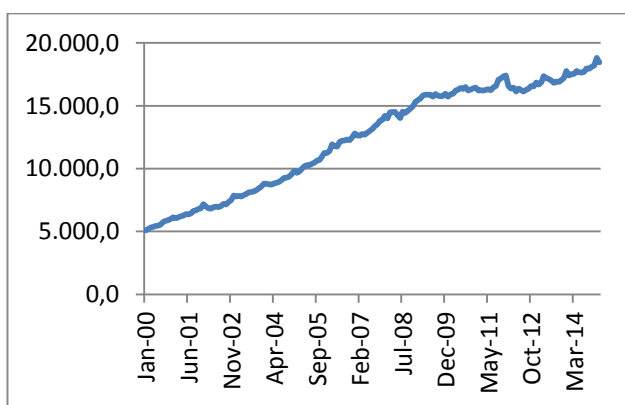
Source: author representation based on data drawn from Czech National Bank, Monetary aggregates and counterparts



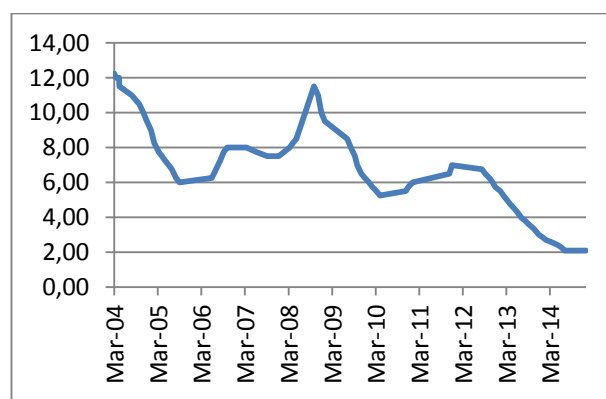
Source: author representation based on data drawn from Czech National Bank, Monetary statistics – Monthly Bulletin 2004-2015

The decreasing of the interest rate in Czech Republic started at the end of 1997, going from 18% on that date to 2% in 2005. As in the case of Bulgaria, since 2005, the interest rate returned on an uptrend, anticipating the economy entering into recession in 2009. The money supply decreased from 1,566,940.80 million CZK in March 2004 to 2,703,370.30 in December 2008.

Figures 5, 6 – Hungary, Broad Money Supply M3, billions HUF, 2000-2015 and Base interest rate, 2004-2015



Source: author representation based on data drawn from Magyar Nemzeti Bank, Monetary and other Balance Sheet Statistics

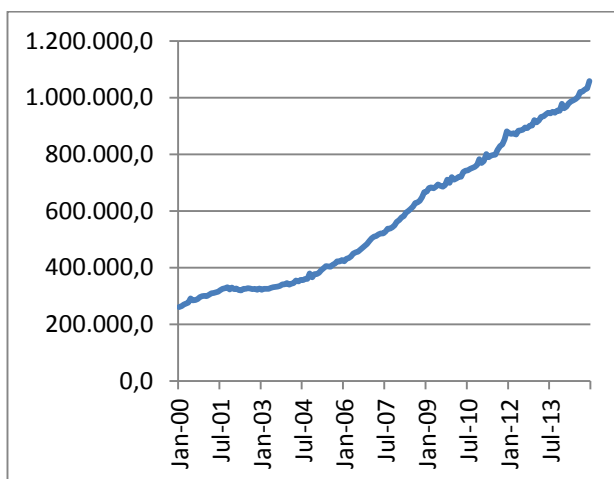


Source: author representation based on data drawn from Magyar Nemzeti Bank, Base rate history

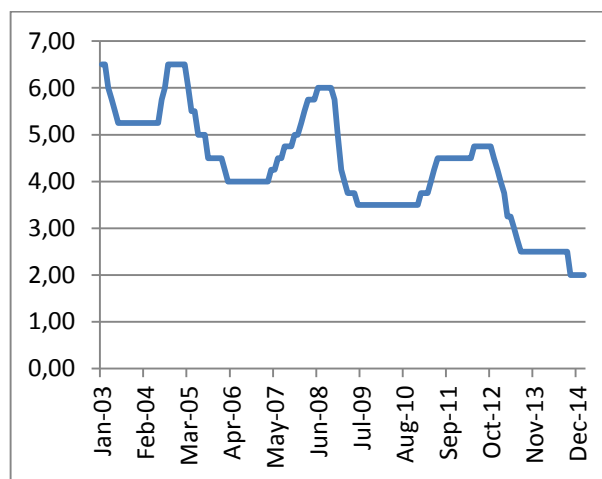
The money supply in Hungary tripled between 2000 and 2009, while interest rates reached a half between 2004 and 2006, with a peak of 11.5% in October 2008. Hungary recorded several episodes of recession after 2009, assigned by some economists to the reduction of the money supply.

For example, Steve Hanke (2012) pointed toward reducing of money supply by 4.2 percent in January 2012 to November 2011 as the cause of re-entry into recession. In fact, the entire 2012 has been characterized by increasing of interest rate, contrary to the tendencies to reduce it in other Eastern European countries (except Poland).

Figures 7, 8 – Poland, Broad Money Supply M3, millions PLN, 2000-2015 and Reference interest rate, 2003-2015



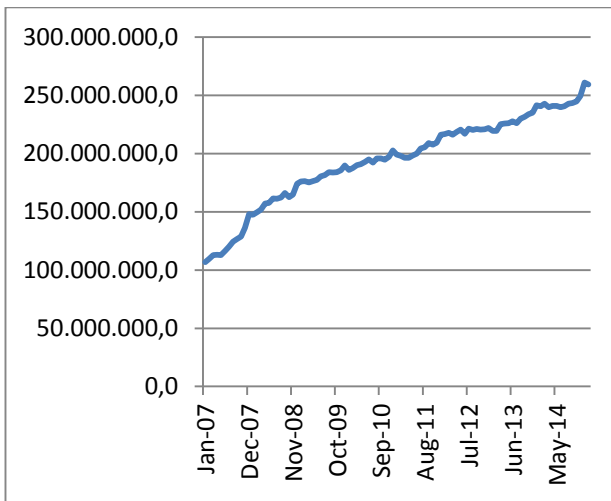
Source: author representation based on data drawn from Narodowy Bank Polski, Monetary and financial statistics



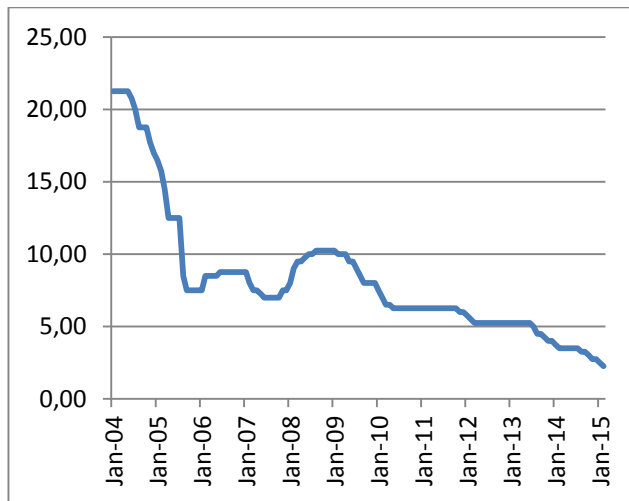
Source: author representation based on data drawn from Narodowy Bank Polski, Statistics Instruments

If, in terms of money supply, the uptrend was maintained in Poland throughout the analyzed period, the interest rate had a fluctuating evolution. Poland is the only EU country which has not entered a recession. Among the possible explanations, we mention that the Polish zloty (PLN) was never pegged to Euro and the growth of the private credit was relatively low, Polish institutions acting not very friendly with creditors (The Economist, 2012).

Figures 9, 10 – Romania, Broad Money Supply M3, thousands RON, 2007-2015 and Key policy rate, 2004-2015



Source: author representation based on data drawn from National Bank of Romania, Monetary financial institutions (MFI) - M3 and its counterpart



Source: author representation based on data drawn from National Bank of Romania, Statistics

In Romania, the interest rate registered a significant decrease, from 21.25% in May 2004 to 7.5% in December 2007. Similarly to the case of the other reviewed countries, the money supply had an upward trend, increasing by more than three times during the economic boom years.

Up to this point of our approach, we have an unified image of monetary expansion in all five countries analyzed, expansion accompanied by fostering access to monetary resources, both for consumption and investments. The result of flooding the economy with cheap money was the increase in demand, both for consumer goods and capital goods. In other words, the demand for present goods and for future goods had increased simultaneously, meaning the occurrence of distortions in the structure of production.

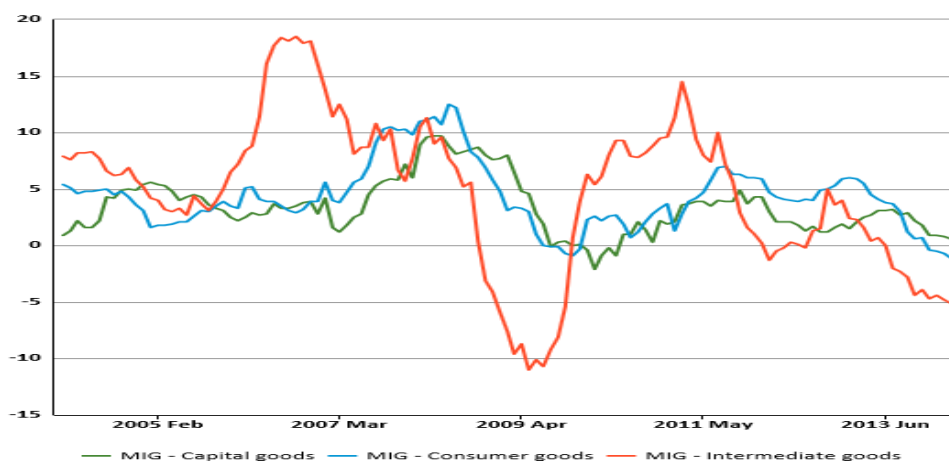
3. Beyond the money. The answer of real economy

Monetary growth cannot generate an increase in the amount of real resources in an economy, only their reallocation, by changing the ratio between prices. We know that economic agents make decisions about consumption and investment, based on price signals. Problems arise when decisions are based on signals transmitted by distorted prices that no longer reflect the relationship between desirability and scarcity of goods. The monetary growth changes the relationship between desirability and rarity, stimulating the first one, while the second is subject to natural obvious limitations. Easy access to monetary resources thus leads to higher demand for both current goods

and future goods. Future goods, in order to be obtained, they need investments that can be made with the price of current consumption restraining. But monetary expansion seems to oppose the simultaneous use to alternative use. Obviously, we are talking about an illusion that can be maintained only as long as access to cheap money is stimulated. People borrow to buy homes and real estate developers borrow to build them.

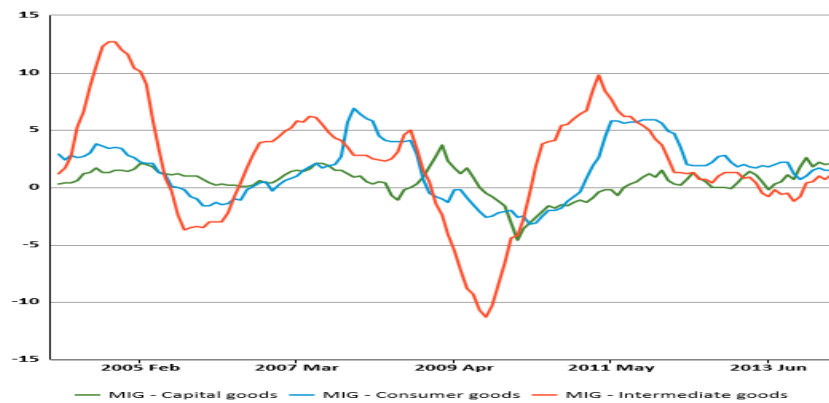
From the perspective of the industrial activity, the five countries analyzed recorded similar developments in the prices of goods classified by main industrial groups. Thus, as illustrated by the graphs below, prices of capital goods and prices of intermediate goods had the largest fluctuations compared to the prices of consumer goods. These fluctuations are obvious over the economic cycle. Thus, in the boom years, capital goods and intermediate goods recorded the largest price increases, these categories being also the ones that have recorded the strongest setback in recession. The only trend that deviates slightly from this model is that of consumer goods prices in Hungary, which in 2010 recorded a steeper decline compared to the goods from the other categories.

Figure 11 – Bulgaria - Output prices of the domestic market index (Producer price index)



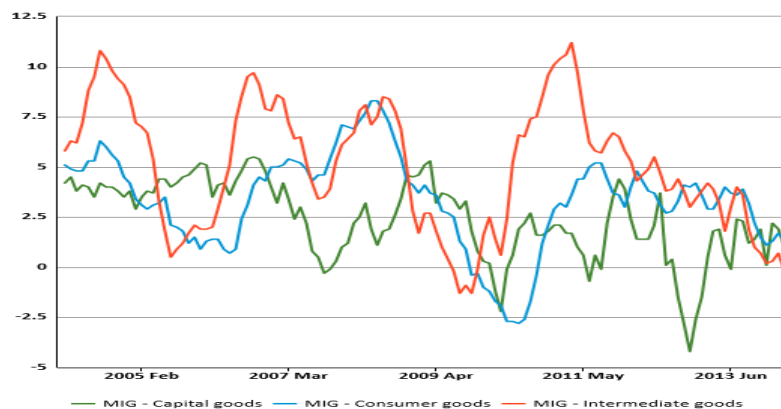
Source: Knoema representation based on data drawn from Eurostat, http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/search_database

Figure 12– Czech Republic - Output prices of the domestic market index (Producer price index)



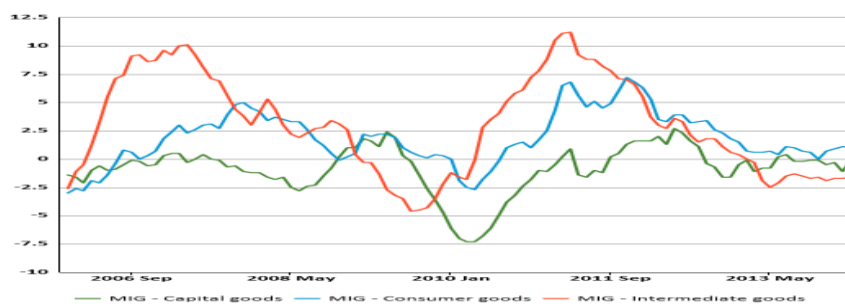
Source: Knoema representation based on data drawn from Eurostat, http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/search_database

Figure 13 – Hungary - Output prices of the domestic market index (Producer price index)



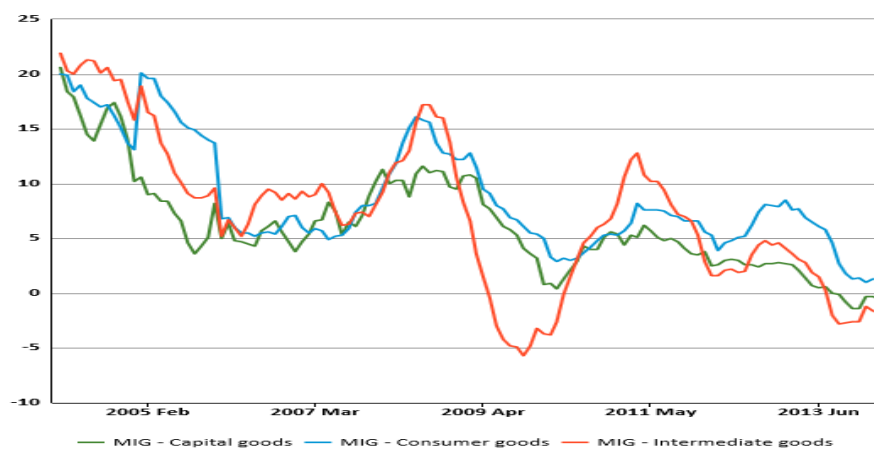
Source: Knoema representation based on data drawn from Eurostat, http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/search_database

Figure 14 – Poland - Output prices of the domestic market index (Producer price index)



Source: Knoema representation based on data drawn from Eurostat, http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/search_database

Figure 15 – Romania- Output prices of the domestic market index (Producer price index)



Source: Knoema representation based on data drawn from Eurostat,
http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/search_database

As regards the industrial products, the most visible decreases after 2008, in Hungary, were recorded in steel and cement groups. After a positive trend during the years 1991-2008, these industries experienced an obvious contraction since 2009. From 2.16 million tons in 2008, the steel production dropped to 883 tons in 2013. The same contraction was recorded in the cement production, from 3.544 million tons in 2008 to 1,350,000 tons in 2013 (Hungarian Central Statistical Office). Construction cost base index was 151.2% in 2007 (2000 = 100). In 2008, there were 145,504 housing loans approved in Hungary; in 2013 that number dropped to 40,663. The stock of housing credits was 838,805 in 2008 and 726,050 in 2013.

The industrial production that has experienced the steepest increase between 2004 and 2008 was coal and refined petroleum products, with a value of 217%. Significant increases occurred in sub-section „production of rubber and plastics” and “other non-metallic mineral products” (170%), “mining and quarrying” (140%) and “basic metals” (138%). These industries, besides significant growth rates recorded during the boom, have some other common features. All industries are located at a great distance from the final consumer (so-called higher order goods producing industries) and all known significant setback once the economic crisis broke out. Thus, in 2009, the production of coal and petroleum products declined by 29%, base metals production declined by 35% and production of chemicals by 19%. This, considering that the industries closer to final consumption (here are included the production of food, beverages and tobacco, pharmaceuticals, computers), with a more moderate growth rates in the boom years, recorded steeper cuts in production value in 2009 (Hungarian Central Statistical Office, 2015).

In Poland, mining and quarrying production fell by 11.6% in 2009 compared to 2008, while the manufacturing industry fell by only 3.9 percent. The evolution of industrial production is more evident when we analyze the main industrial groups. The capital goods group with an increase of 49.3% between 2005 and 2008, declined by 10.8% in 2009. The group of intermediate goods, with an increase of 26.3 percent between 2005-2008 declined by 7 percent in 2009, while the group of durable consumer goods, with a slower growth in 2005-2008, of 19.2%, recorded in 2009, during the economic crisis in Europe, an increase of 2.5 percent (Central Statistical Office of Poland, 2015). In the Czech Republic, the car and equipment industry and non-metallic mineral products industry recorded a significant increase during the boom years, with rates of 121.4% in 2008 (2010 = 100), respectively 128.9%. Both industries recorded a decline of over 25 percent in 2009 (Czech Statistical Office, 2015). In Romania and Bulgaria, after 2004, the highest increases were recorded in the building materials industry and metallurgy, trend reversed after 2008. The food industry maintained its upward trend throughout the analyzed period, which reveals a clear option of individuals for present consumption and only a contextualized (by monetary increase) option for goods that require longer production processes, for more capital intensive goods.

Conclusions

The crisis of 2008-2009 is an eloquent lesson about distortions created by monetary growth in the structure of production. Industrial production development in Eastern Europe countries and their price indices reflect the effects of monetary expansion. The individuals 'preference for current consumption is evidenced by the relatively smooth development of consumer goods 'prices. Sharp swings in capital goods' prices, as well as significant fluctuations in industries that require longer production processes indicate the action of a triggering factor. Trapped in monetary expansion race, emerging economies from Eastern Europe have experienced industrial growth "mirage". Growth in "on credit" domestic demand stimulated industrial activity, especially in remote from consumer industries. The unsustainability of these investment projects became evident with the tightening of access to bank loans, which argues the artificial nature of growth.

The main problem of the emerging economies is the lack of capital. Capital is the key resource of a sustainable industrial structure. Monetary growth can not compensate the lack of capital, it does nothing more than reallocate productive resources in combinations that turn out not to be supported by individuals' preferences. Moreover, the artificial orientation of resources based on distorted prices is responsible for loss of capital. The chance for healthy growth of these economies is the attraction

of investment, of capital in order to boost production processes supported by consumers' preferences, and not artificially stimulated by increasing the supply of money.

Acknowledgement

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DEVELOPMENT OF POLITICAL PARTIES AND PARTY FUNDING: MODELS AND CHARACTERISTICS

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Irena CAJNER MRAOVIC**

Abstract: *The first modern political parties were formed at the end of the 18th century and have, from those times up to now, undergone 4 developing phases; each of the phases is bound to ideal-type political party model: cadre parties, mass parties, catch-all parties and cartel parties. Each of these party models differentiates in various characteristics: party foundation, number of members, and way of leading the election campaigns, but also in ways of financing. This paper describes the above mentioned 4 phases of political parties' development and 4 phases of parties' finances development; it will be analysed in detail positive and negative sides of each of the models of party financing.*

Keywords: political parties, political parties financing, corruption.

JEL Classification: A1, A2

Introduction

Some authors refer to political parties financing as the “costs of democracy” (Burnell, 1998, p. 4; Nassmacher, 2003, p. 4). The costs of democracy usually involve functioning of the judiciary, local government and other public goods but regardless of the fact there is no single definition of democracy and unified position on its requirements, an indisputable fact is that political parties play a central role in political competition (Burnell, 1998, p. 4) and that they are “inevitable and indispensable instrument of democratic government” (Nassmacher, 2000, p. 233). As the developed democracies actually become party democracies, issues related to party funding has become a critical issue for any democratic society. Therefore the way in which political funding affect the relationship of the parties with its members, voters and the general public is essential for quality of democracy functioning (Burnell, 1998, pp. 7-8).

Jelčić briefly explains the relationship between political parties and the financial resources: “political parties, as voluntary organizations of free citizens in a democratic state, nominate candidates for their representatives in parliament, and they are trying to score good results in elections. In order to participate in the electoral battle, to accomplish tasks for which they were established, the political parties should have the finance to pay all expenses associated with their activities” (Jelčić, 1993, p. 118). Money has a “symbolic and practical value in political competition” (Casas-Zamora, 2005, p. 7), and as the money is important in politics, it can threaten democracy if its

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role is not adequately regulated. Collecting and spending political money has several possible consequences:

1) The electoral equality is often influenced by political money - if its distribution is uneven, uncertainty of elections will likely be compromised.

2) The inevitability and indispensability of money in politics gives donors possibility to acquire political influence, which may endanger the equality of citizens if economic powers become a major factor in the electoral competition, and only those who have the economic power will be able to gain political power.

3) Political contributions are opening a multitude of possibilities for finding dishonest or illegal “common interests” between donors and politicians, which finally can lead to privatization of decisions designed by policy makers (Casas-Zamora, 2005, p. 2).

Although first modern political parties were established in the 19th century, the party financing issue becomes a matter of scientific research and intensive debate since 1970s. The rise of interest in party financing has multiple causes, but the most important is the growing awareness of political corruption and its ability to threaten fundamental democratic institutions, so over time party financing has become a significant issue which are dealing numerous scientists, journalists and non-governmental organizations around the world to deal with (Casas-Zamora, 2005, p. 1).

Political parties are formed within the modern political system as organisation that institutionalize the fact that modern society, despite the guaranteed equality of rights for all citizens, exists as a collection of unequal individuals; with establishment of political parties state is transformed into a political system in which they perform important functions and parliamentary democracy is established as a pluralist democracy (Prpić, 2004, p. XI).

Political parties are institutions that could be hardly defined. They operate in private society, and also in the state as an institution, and consequently they are part of the state, but they are also part of the society that establishes private society as a sphere of civil society. From this derives their hybrid character. In democratic societies, political parties can be viewed as association whose objectives are legitimized referencing to the interests of certain sediments of the people. They are more or less tightly organized groups, and are trying to implement their goals through government, they are in a certain ideological and political relations with other associations and their political efficacy refers to the party system and the certain possibilities of sharing political will formation within the state (Lenk and Neumann, 1967, p. LXXIX).

The forms and methods of party financing are one of the central problems of structure, functioning and efficiency of modern democratic regimes. Political parties can be viewed in two

ways. The modern political parties are formed as (private) associations of citizens, who are trying to promote their interests in the state through political parties, and therefore these associated citizens should themselves finance party's activities or collect financial support from their supporters. If the party system is really functioning according to this classical liberal understanding, the poorer classes of citizens would be difficult to participate in politics, and on the other hand, the economic potentates will be able to "buy" a political party and to instrument state for the promotion of their own interests. However, if the political parties are seen as an essential subject of democratic regimes, which should assure that all citizens have equal opportunity to participate in shaping of the political will, we come to the conclusion that their actions should be financed from the state budget. Such a solution has various advantages but also disadvantages: political parties public financing reduces the potential dependence of political parties from the private potentates and reduces the possibility of corruption. However, on the other hand, this solution encourages the "nationalization" of political parties, thereby enabling distancing of parties from the public and also encourages oligarchic tendencies within political parties. Political parties represented in the parliament decide on its own financing, and this fact raises the question who should control them in doing so (Prpić, 2004, p. XIX).

1. Development of party funding

The first modern political parties were formed at the end of the 18th century and have, from those times up to now, undergone 4 developing phases (Katz and Mair, 1995); each of the phases is bound to ideal-type political party model: cadre parties, mass parties, catch all parties and cartel parties. Each of these party models differentiates in various characteristics: party foundation, number of members, ways of leading the election campaigns, but also in ways of financing. Cadre parties were mostly financed by candidates' personal assets and donations from aristocrats, business circles and patrons. Mass parties were mostly financed by membership fees, especially by the left-wing social-democratic parties and union's donations, while the centre parties and right-wing parties replenished their membership fees with business circles' donations. Catch all parties were, in minority, financed by membership fees and members' donations and largely by union's donations (left-wing party) or business circles (right-wing party). As these funds were proven to be inadequate for leading campaign via mass media and for paying professionals working in parties, political parties started to use public, budget sources. Cartel parties take full advantage in public sources, constantly enlarging them. Furthermore, they get donations from private sources, but public sources become one of the main, and in some countries, the only source of party financing. This paper describes the above

mentioned 4 phases of political parties' development and 4 phases of parties' finances development. It will be analysed in detail positive and negative sides of each of the models of party financing. All the models are ideal-type models and there are certain differences between countries and certain party families.

Table 1 – The models of party and main resources of party financing

POLITICAL PARTY MODEL	TIME OF FORMATION	MAIN FINANCING RESOURCES
Cadre party	Beginning of 19th century	Candidates personal assets
Mass party	1880	Membership fees and contributions
Catch all party	1945	Membership fees, contributions from various resources, public subventions
Cartel party	1970	Public subventions

Source: (Katz and Mair, 1995, p. 18)

1.1. Cadre party

The beginnings of parties financing date back to the 19th century, when first modern political parties arose. The very beginning of party life was characterized mainly by the limited size of the electorate (“religious axiom that many are called, but few have chosen”, “psychological thesis that something ideal seizes only a minority with selected spirit”: Michels, 1990, p. 7).

The first modern political parties formed in the late 18th and early 19th century were called cadre parties. As they were loosely associated organizations with a small number of members, as a result of the high thresholds that were in effect at the time of their formation, cadre parties did not have any regular membership fees, and their activity took place only during the electoral period. The core of these parties consisted of the famous and influential individuals whose name or impact served as a guarantee of the candidate and brought him votes. It should not be overlooked that these famous and influential individuals were financiers who contributed funds for the electoral battle (Goati, 2001, pp. 24-25).

Party funds rest above all on the candidate's personal properties, but also on large donations from landowners, industrial magnates and bankers, and the status and economic position have enabled local notables to engage in politics at a time when MPs' salaries were not paid from the state budget, and when it was possible to buy position in the parliament (Mulé, 1998, p. 50). However, personal wealth and occasional donations soon proved to be inadequate for the increased campaign costs, and therefore the party leaders were forced to complement donations received from aristocrats and

business circles with the incomes from patrons. Additionally, cadre parties could regroup public funds to solicitate voters and to distribute material incentives such as money, status and posts, in exchange for votes. During this period electoral cheats were very common; for example, in 1832, 850 from the 1,000 voters of the Stamford electoral district were bribed. In period of 25 years (from 1832 to 1857) the public was presented with 443 petitions which have tried to challenge the results of the parliamentary elections due to different electoral abuses (Johnston and Pattie, 2000, p. 124).

Having in mind party finance, the importance of cadre parties lies in the fact that they were the first form of party organization endowed with a funds collecting system, because the members of parliament were expected to cover their own campaigns costs and to secure material incentives to reward followers and voters.

1.2. Mass party

Mass parties arose in the second half of the 19th century and they included in membership large number of working class members, who gained voting rights after electoral reforms (Goati, 2001, p. 25). However, after the expansion of suffrage there was a need for new forms of organization, necessary to ensure the mobilization of the masses - the majority of the mass party members worked between twelve and fifteen hours per day and it was impossible for them to participate in any kind of unpaid activities. Soon it became obvious that the irregular funding, which was sufficient for cadre parties, was not suitable for mass organization funding, so mass parties began to establish branches, as permanent organizations whose purpose was fundraising (Mulé, 1998, p. 53).

For its financing mass parties have used completely different tactics than cadre parties: instead of collecting large sums from several donors, mass party was focused on membership dues, the small amounts that were paid by large number of members. In this way funds for election campaigns and the working class education were provided, as well for the party leadership salaries. As the doctrine and ideology encouraged political participation, a large number of workers have contributed to the betterment of “their” party with volunteer work, and volunteer work was particularly evident in the maintenance of local organizations and fundraising. This form of party funding originated from the left-wing parties, which in this way provided representation of the working class in parliament, and a paradigmatic example of a mass party was the German SPD*, whose number increased from 400.000 in 1905 at 1.050.000 in 1914 (Mulé, 1998, p. 55) .

* Sozialdemokratische Partei Deutschlands.

Except with membership dues, left-wing parties provided funding also from the unions. Just like the German SPD, British Labour Party was also financially supported by the unions; however, these two parties differed in the way of fundraising, since in Germany money from the union dues was directly remunerated to SPD, while Labour Party indirectly collected funds from unions, receiving a fee for each new union member. Since 1913 every person who entered into union membership, automatically also became a member of the Labour Party, unless he explicitly refused. This way of dependence on unions and union funds lasted in the UK until the early 20th century, when salaries and allowances were secured to members of parliament. From 1918 onwards the possibility of individual union membership was approved, so the union members were no longer automatically members of the Labour Party and in this way separation of the Labour Party from the union identity was facilitated (Mulé, 1998, p. 57).

After World War I party competition was intensified, since the sudden strengthening of left-wing parties represented a serious threat to middle-class parties and cadre parties, so there have been changes of the cadre parties' electoral tactics, inter alia through intensified investment in professional advertising techniques and political propaganda. The British Conservative Party in the 1920s began to turn to business circles, trying to find in them a new source of funding, since the collection of a small number of large donations from individual donors proved to be insufficient to cover the new party costs. An additional problem emerged in 1925, when the government declared illegal sale of titles, thus eliminating a significant source of income for middle-class parties, since from the late 19th century these parties were largely financed by selling honorary positions. After this, Conservative Party was forced to make a strong pressure on the membership in order to weaken the role of the rich, local donors as a source of funding and to financially strengthen the position of party branches. British liberals had failed in an attempt to build branches, and this organisational failure to build a solid incomes system was one the main factors of their marginalization in the post-war party competition (Mulé, 1998, p. 60).

In Germany, the growth of left-wing parties, especially of the SPD has raised concerns of business circles and encouraged creation of organizations through which various companies transferred funds to non-socialist parties. In 1905 industry associations have established a "Reich Association against social democracy"* that offered financial support to right-wing parties in 1907 elections, and the amount of support depended on the number of "pro-industrial" candidates on party lists (Mulé, 1998, p. 61).

* Reichsverband gegen die Sozialdemokratie.

1.3. Catch-all party

After World War II so-called catch-all parties emerged (Kirchheimer, 1966). This type of party is characterized by “fail of ideology, strengthening of leadership and weakening of membership, expansion of target groups, if possible, on entire nation, or on an increasing middle class, and party opening to a growing number of interest groups” (Beyme, 2002, p. 22).

Transformation of the mass into a catch-all party drastically reduced importance of ideology, but also reduced importance of individual party member role, so political parties quickly became less and less dependent on membership dues, and more dependent on other sources of funding, like various interest groups. It should be also taken into consideration there have been changes in the campaigning style in which communication between the leaders and supporters is more and more established through mass media, and “door to door” agitation or organization of local meetings lose its importance as the radio and television broadcasting proved much more effective, but also much more expensive (Mulé, 1998, p. 62). Development of communication technology has significantly affected the way of fundraising, because there has been a growing gap between the material resources necessary for political campaigning and the resources available to the parties, such as voluntary work and institutionalized support, and in these circumstances interest groups obtained a privileged position as a source of funds.

Therefore, the parties were forced to find ways for obtaining funds. Weak access of members to the party motivated the German CDU to approaching business cycles, which were covering the larger part of their electoral and administrative costs, and this relationship with the business associations was formalized in 1952, when they founded the sponsoring organizations* that have acted as a link between business donations and parties. CDU rewarded donors offering them privileged “channels” to access the party life, and thus at all levels, party leaders were elected from non-party groups, usually among industrialists and local notables, and in that way possibility to business community to influence economic and social direction of the party was given, in accordance with their objectives (Mulé, 1998, p. 63). Other “non – socialist” parties that also received money from the business circles were FDP†, conservative agrarian DP‡ and BHE/GDP§ (Schleth and Pinto - Duschinsky, 1970, p. 41). In Italy, after the Second World War, organizational growth of DC** was

* Fördergesellschaften.

† Freie Demokratische Partei.

‡ Deutsche Partei.

§ Bund der Heimatvertriebenen und Entrechteten/ Gesamtdeutsche Partei.

** Democrazia Cristiana.

associated with the support of the Catholic Church. Local party organizations were controlled by the associations connected with the church and through these associations Catholic Church transferred financial support to DC. In addition to the support of the church, DC received generous donations from the Confederation of Industrialists*, and this financial support was given to DC mostly through local supportive organizations and in this way increased the power of peripheral association with respect to the center (Mulé, 1998, p. 65).

A large turn in political parties funding was initiated in 1954 when Costa Rica, as the first country in the world, introduced political parties financing from public resources. Public party funding that was unknown in the first half of the 20th century, became common in the latter half (Ware, 1998, p. 242). The reason for the introduction of public party funding was development of catch-all parties. Parties were no longer conspiratorial communities, whose members were willing to make large sacrifices. Competition for the votes of center voters, who were no longer associated with the classes, significantly increased election campaign costs (Beyme, 2002, p. 117). Parties growing financial needs and their escape to public funding were not so much the cause, but a consequence of general etatization process which no longer allowed parties existence in the form of a purely social organization and in that way they were increasingly tied to the governmental sphere (Beyme, 1999, p. 113).

In Europe the first country that introduced public political parties funding was Germany in 1959. However, the whole process of the introduction of public party funding proceeded slowly and quite long lasting. SPD was the main opponent of public financial support to political parties. In 1957 SPD has filed a complaint to the Federal Constitutional Court (Landfried, 1994, p. 34) arguing that the system of tax relief on political donations is unconstitutional because it favoured parties with the wealthier supporters (Scarrow, 2004, p. 661). As in the early 1950s debates on public party funding began, the SPD continued with statements that direct public party funding was “problematic” and that is was acceptable only as political education support, but to a limited extent (Landfried, 1994, p. 32). Proposal to increase resources for party funding was in 1964 vividly described by one of the SPD's representative as a “quick step to cancer that has limited the Central American and South American countries” (Landfried, 1994, p. 34). SPD representative Schmitt – Vockenhausen in 1965 explained opposition to public funding as the fear that it will make parties more dependent, which in turn will increase the reluctance of citizens against parties (Landfried, 1994, p. 39). At that time, SPD had a large membership and it was mainly funded by membership dues; having that in mind, it was quite

* Confindustria.

logical that SPD opposed solutions that fit the ruling party, which did not have such large membership.

In other countries parties differently perceived party funding from public resources and their attitudes were largely dependent on the ideological tradition and access to financial resources; there was no unified position within each party family, but still there was some regularity. The left-wing parties generally evaluated public party funding as evidence that the party lost its social, critical function and erected in the hands of the state. Liberals argued for a separation of the state and society, saying that party should remain on the territory of society (Beyme, 2002, p. 117). Conservatives usually rejected public party funding, especially in the UK and Scandinavia, as they were successful in obtaining funds from private sources, and public support more financially strengthened their competition. British Conservatives have argued that public funding diminished party the freedom to criticize the government and led to further alienation of the party from the people (Johnston and Pattie, 2000, p. 149). European communist parties were against public parties funding because they feared that the left will fall into the current “civil state” and that will blurrily articulate their “class position” (Drysch, 2000, p. 156). In reality, they were just afraid of losing their superior position in relation to the other parties, because all of their financial needs were covered by large number of collected membership dues and levies on members of parliament salaries (Drysch, 2000, p. 172).

1.4. Cartel party

Initial opposition to public party funding over time lost intensity and persuasiveness. Political parties funding from public resources became possible only after the parties have become legally and constitutionally accepted. Awarding this kind of benefits to the parties, with respect to other organizations and interest groups, has certainly facilitated the transfer of new functions of the political system to political parties (Beyme, 2002, p. 117). Besides the indisputable advantages of this mode of party financing, it should be also taken into account that public party funding, with secure funding from public sources, can weaken the interest of the parties to maintain stronger connections with citizens through their mobilization and building a relationship with society. With introduction and gradual increase of public party funding, donating parties as a way of expressing political views significantly lost its power, which can finally lead to the creation of a small number of wealthy parties separated from citizens and society, which will, instead working on the ground with members and potential “small” donors, prefer to turn to mutual cooperation in order to preserve the financial status quo (Johnston, 2005, p. 16). So in the 1970s system of cartel parties emerged (Katz and Mair, 1995),

where the parties ensure their own survival, to a larger or smaller extent, secretly cooperating on various issues and thereby colonizing segments of the state.

Cartel parties “become agents of the state and exploit state funds (of party state) to ensure their collective survival” (Katz and Mair, 1995, p. 5) on the basis of mutual agreement between the parties, in which large opposition parties are also included, but new or small parties are excluded, which are with legal constraints disabled to fight in political arena. In Germany, political parties for the first time received support from the budget in 1959, in the amount of 5 million DM, and the resources were allocated to parties on the basis of inter-party agreement of the Bundestag budget committee, since at that time there was no legal regulation that would treat this issue (Drysch, 1998, p. 125). The inter-party agreement would not have meant anything if there had not been consensus on the issue of party funding between main parties (Landfried, 1994, p. 34). It should be noted that in this inter-party agreement did not include non-parliamentary parties and it can be concluded that this was the parliament party consensus at the expense of non-parliamentary parties. Already in 1962, this time on the initiative of the “financially strapped” (Scarrow, 2004, p. 661) FDP, the budget item „parties expenses pursuant to Article 21 of the Basic Law“ was put in the budget plan (Drysch, 1998, p. 124), which brought parties additional 15 million DM per year. Therefore, public parties funding, which was itself at that time a revolutionary event, was introduced entirely on the basis of inter-party agreement, and additionally, again only on the basis of inter-party agreements, state aid to the parties was increased from 5 million DM in 1959 to more than 64 million DM in 1964 (Drysch, 1998, pp. 124-125). Non-parliamentary parties showed its disapproval with public support to parties designed in this way, and in 1964 lawsuit to the Federal Constitutional Court was filled by two smaller parties DP/BHE and Bayernpartei, who opposed the support because non-parliamentary parties had been excluded (Scarrow, 2004, p. 661).

It is also typical for cartel parties that they refuse to compete in issues that can initiate changes in the institutional framework and thereby harm the party in power, but also the parties in opposition. Although the cartel members compete in elections and dispute about different issues, however, they are willing to cooperate on issues of common interest (Scarrow, 1997, p. 455). Such was the case with public party financing, which has become one of the foundations for cartel parties building. From 1959 in Germany parties receive direct financial support from public funds, a lavish one and without many commitments since the aid had been introduced on inter-party agreement, and not on law, and this agreement contained mainly the rights (on funding from public sources), and not any obligations. Consequently, parties become extremely important, strong and rich (at least in relation to parties in other countries) and thus become somehow untouchable. Long-standing opposition of

Social Democrats ended in 1967 by participating in the development of inter-party draft of political parties' law which, among other, regulated political parties financing. It was still not easy, since the SPD remained sceptic to general financial support without pointing out specific purpose of support and generally, as usual, insisted on support for political education. In the meantime financial needs of SPD have increased, SPD and CDU have started to work on other policy issues, and they simply adopted this law from common interest (Scarrows, 2004, p. 661). The beginning of the 1970s brought financial difficulties to all German parties, which have arisen as a result of high inflation and expensive election campaigns. As all major parties had similar financial problems, rival parties quite easily agreed to increase public support for the campaigns and in 1974 support for the campaigns to all parliamentary parties was increased. New elections for the European Parliament proved to be a good excuse for further increase, so in 1978 support for these elections was also introduced. Two years later the upper limit for tax deductions for political parties' donations was raised.

It is interesting and indicative that in all these cases, representatives of various parties worked together on legislative changes details. This is typical cartel behaviour since all parliamentary parties, which are usually tough opponents in parliament, away from the public and without too much controversy, through joint cooperation quietly adopted measures to increase their revenues from the budget (Scarrows, 2004, p. 662). Major parties also included new parties into cooperation, such as the Greens, regarding party finances, and got their support. There is another important effect of this cooperation - the fact that in these cooperative activities large and small parties were involved, "isolated agreements about party finances from the scandal effects and from public discontent, which stemmed from it" (Scarrows, 2004, p. 666).

Conclusions

Political parties funding is a problem, by all means, of the parliamentary system. First political parties were formed in the parliament as a representative fraction of specific groups; these parliaments, of course, were not constituted by democratic means, i.e. by general and direct elections, but they occurred as the bodies in which nobility representatives were gathered. During this period, parties were buying votes of the voters (one narrow layer of the population who had the voting right) to ensure as many of like-minded in parliament. At the end of the 19th century after the democratization of the electoral system for the first time in history the party was formed that did not originate in the parliament but outside of it; in labour parties there are citizens, non parliament members, who are joined together to send their people to parliament. In the area of party financing

there have been significant changes: members of parliament, i.e. candidates for members of parliament, do not anymore bribe the voters, but a variety of non-partisan and non-parliamentary bodies bribe lawmakers to lobby for their interests, and the situation remained as such until today. Therefore, we can conclude that the changes that occurred in party finances are direct consequence of changes in parliamentary systems and of creation of modern parliamentary systems.

All systems of party financing originate from private sources financing, and until the middle of the 20th century, political parties were largely funded from private, non-state, i.e. non-budgetary sources. However, political developments in the second half of the 20th century turned this common base into completely different financing systems, so today this system is, for example, in Germany quite different from the system in the UK. Most countries followed the example of Germany which, in 1959 was the first in Europe to introduce public party financing; then, albeit in relatively small and quite unclear form, but the public parties financing in the period of more than fifty years has significantly evolved, both in forms of financial aid and the amount of funds. Advanced public funding enabled development of cartel parties, which were transformed from the intermediaries between the state and society into part of the state and its agents. Cartel parties took over the state and “oligopolised political space” (Ravlić, 2010, p. 65) presenting themselves to voters as the only serious electoral choice, and at the same time cartels parties mutually shared public resources, budgets and positions, and legally prevented the emergence of new political forces which might threaten them (Katz and Mair, 1995).

Therefore it is not surprising that today public perceives political parties in a rather negative way and numerous public opinion surveys conducted in very different countries showed generally very low level of trust in political parties. Average citizens do not see parties as promoters of democracy; they are bothered with parties’ connections with powerful economic lobbies, and their confidence is also shaken with numerous money abuses for political purposes. Corruption scandals that have erupted several times, even in well-ordered countries like Germany, have shown that the danger of plutocracy is “quite immediate and practical” (Kregar, 2003, p. 13). It should also be noted that by obtaining funds from the state and from big donors there is a risk of parties forgetting the financing party activities or „goal“ is one of the ways that the parties will forget that “the financing party activities or “goal” is one of the ways to secure and maintain the relationship between leaders and supporters” (Nassmacher, 2003, p. 7) and they will no longer feel the need to work on the ground collecting dues and “small” donations from party members and supporters. It certainly contributes to the decline of public confidence in party democracy, already shaken by numerous corruption scandals

and clientelist relations, which have been turned away citizens' interests for a stronger identification with political parties (Milardović, 2007, p. 18).

The importance of money for parties functioning was emphasized several times, and ultimately for functioning of democracy itself, however, the power of money should not be overestimated in order to influence political competition, since various researches proved there is no necessary connection between amount of funds spent in election campaigns and electoral success. Elections success depends on other things as well; charisma of candidates and parties their attitudes which voters will evaluate as credible, organizational skills, as well as party discipline (Burnell, 1998, p. 7).

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INNOVATION IN THE EUROPEAN VALUE CHAIN: THE CASE OF THE ROMANIAN AUTOMOTIVE INDUSTRY***

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Abstract: Entrepreneurs' and regional stakeholder's capacity to turn knowledge, skills and competencies into sustainable competitive advantage is crucial to a region's economic performance. The article attempts to reveal their synergy by gathering evidence in the particular context of the Romanian automotive industry. Based on primary data collected through structured interviews and experiential visits, the research is organized around three investigative themes: (1) entrepreneurs' approach to and perception on innovation, (2) factors affecting innovation, and (3) networking and knowledge diffusion in the regional productive environment. The findings emphasize the convergent opinion of the regional stakeholders on the vital role innovation plays at the current stage of the industry and the key role entrepreneurs have in stimulating innovation in the regional context. A series of three factors underlay the innovative performance at regional and industry level, namely the presence of an innovation friendly business environment, entrepreneurs' personality, as well as the external competitive environment.

Keywords: automotive, entrepreneurship, technology, innovation, Romania

JEL Classification: L62, O03

Introduction

Entrepreneurship and innovation are staples of any business schools' curricula. The pair concept has been studied for sufficiently long time to suggest that policy makers are left with the only option of considering their circular causation on their economic agenda. However, the researchers have yet to investigate the conditions under which the reciprocal influence is most likely to eventuate in a virtuous circle, or, alternatively, to escape a vicious one.

Attempts to place the two concepts in a territorial context – for example, at which level, national or regional, is it more appropriate to spur innovation and encourage entrepreneurship? – add more issues to the debate. The National Innovation Systems literature of the 1970s has been lately supplemented with increasing evidence pointing to the positive effect of the geographic and institutional proximity of stakeholders involved in generating innovation. Entrepreneurs' and regional decision makers' capacity to turn knowledge, skills and competencies into sustainable competitive advantage is crucial to a region's economic performance and thus new knowledge provides solid ground for facilitating their interaction and support agglomeration effects.

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This paper attempts to reveal their synergy with the help of a case study on the automotive industry in Romania in a regional context, in particular at the level of its southern region, Muntenia. The analysed region is of particular interest because most of the industry players are located here along an almost full-fledged value chain: from international and local suppliers, most of them as members of two out of the three national institutionalized sectoral clusters (i.e. Pol Auto Muntenia and Sprint Acarom) to a major assembler (Renault-Dacia plant in Mioveni), two technical universities and research institutes. The Muntenia region ranks second in terms of national RDI resources: it accounted for 9.3% of RDI average expenditure in 2007-2010 (Eurostat), 6.1% of RDI units (INS 2009), and 9.6% of the Romania's RDI employees (Eurostat).

The overall automotive industry accounts for a sizable part of the Romanian economy with a turnover of about €16.86 bn in 2013 (ca. 11% of GDP) and a share of 24% of country exports (ACAROM). Also, it ranks first in terms of competitiveness among other national sectors (Munteanu *et al.* 2012, pp. 53-54) due to a spectacular rise after 1989 in terms of export share, and as an innovative sector. The value of automotive exports has grown exponentially in the last decade (from 0.44 billion Euros in 2003 to 7.07 billion in 2013), significantly supporting the growth of the Romanian economy.

As for the innovative relevance of the industry, the setting up of the largest Renault's foreign research centres in Romania in 2006 has revitalized at high level RDI activities in the industry. Led largely by Romanian managers and employing 2.300 engineers, Renault Technologie Roumanie (RTR) is responsible with development and innovation for Dacia- Renault's Entry range and has design, testing and manufacturing platforms. At the same time, there is a complex research infrastructure supporting the sector: 11 technical universities and private research undertaken by international suppliers that have relocated part of their RDI activity here (e.g. Continental, Siemens and Ina Schaeffler). Briefly, Romania not only assembles around 1 million vehicles per year, but it also develops the ability to design them.

Romania is associated to the success story of building a new generation of low budget cars, the cheapest cars in Europe (i.e. Logan and Sandero). Furthermore, specialists (*e.g.* Govindarajan and Dubiel 2010, Haddock and Jullens 2009) point to Logan as a powerful example of *reverse innovation* (i.e. breakthrough innovations happen first in poor countries and those innovations subsequently are taken to rich countries) and part of the reasons rely on the gradual shift of product development responsibility to Renault's R&D centre in Romania.

The Romanian automotive industry seems to be in the convenient position of having the right product at the right timing and targeting two growing segments: the unsaturated emerging markets

and the growing WE demand for lower cost vehicles. Nevertheless, there are two major challenges threatening the current advantage: on one hand, the competition on the low cost segment coming from both Asian countries (China with Chery and Geely, India's Tata Motors with the \$ 2,500 Nano model) and from traditional OEMs (e.g. Volkswagen, Toyota, GM). On the other hand, innovation in the global automotive industry is intensifying and the automobile industry has entered an innovation race. The dynamics of the automotive industry have never been greater: automakers spend more than \$100 billion annually on research and development (R&D) and fourteen automakers are among the top 50 most innovative companies in the world according to BCG's 2013 survey, compared with only five in 2005. Three companies (Toyota, Ford, and BMW) rank in the top 10, and nine automakers are in the top 20. At the European level, the automotive sector is the largest investor in R&D with investments of over €32 billion (around 25% of total R&D spending) and 10,500 patent applications registered each year (ACEA, 2014).

Is the Romanian car industry ready to change and accelerate its adaptability and pace of innovation? Innovation scoreboards place Romania under the category of “modest performers” in terms of innovation with scores well below the EU average for almost all indicators. Still, Romania has registered a growth performance (1.9%) above the EU average (Innovation Union Scoreboard 2014, p.4) and remains the most innovative country in its performance group. Good scores are related to economic effects of innovation, innovators and human resources, while improvements are needed in aspects concerning R&D expenditures in the business sector, open, excellent and effective research systems, finance and support, linkages and entrepreneurship.

Against this background, the role of innovation and entrepreneurship serves as the organizing theme of this paper.

1. Literature review

Entrepreneurship and innovation are apparently creating an established conceptual pair, with causal effects running both ways. In light of Schumpeter's (1961, 1934) and Drucker's (1986) views of entrepreneurship, they are even perceived as overlapping concepts. In fact, little consensus has been reached among scholars concerning terms and definitions clearly distinguishing between innovative and entrepreneurial activities (Garcia and Calantone 2002; McFadzean *et al.* 2005). The inconclusive result is still an answer though and points to a considerable space of interaction between the two.

A common portrait depicts the innovative entrepreneur of possessing, “an active component comprising the entrepreneur’s propensity to drive innovation and an absorptive component comprising the entrepreneur’s capacity to recognise and welcome innovation delivered by external factors” (OECD, 2010).

On the “active” side, entrepreneurial discovery plays a variety of roles in innovation. Kirzner (1997) defines the role of the entrepreneur as the “opportunity identifier”, the one in charge with the discovery and early exploitation of previously unexploited opportunities. In Knight’s (1921) perspective, the entrepreneur is the “risk taker” that anticipates new profit opportunities, takes the risk of launching new solutions to the market and deals with the uncertainty whether they will be profitable or not. Drucker (1985) perceives the entrepreneur as the “resource shifter” and points to the way entrepreneurs relocate resources in their attempt to improve productivity level, endowing existing resources with new wealth-creating capacity.

On the “absorptive” side, innovation is directly related to performance and mediates in the entrepreneurship - performance link (e.g. Smith, 2006; Deakins and Freel, 2006; Fang Zhao 2005, Kohtamäki *et al.*, 2004). According to Brazeal and Herbert (1999, pp. pp. 29-34) innovation and entrepreneurship can be seen as both a process and its end-result. In other words: “the end of an innovation is the starting point for entrepreneurship” (Mets 2005, pp. 263–273).

Felicitous though the dual relationship may appear, it is still dependent on the actual organisational capability to make it a workable business strategy. Covin (1999, pp. 47–64) argues that the presence of innovation per se is not enough to rate a firm as entrepreneurial. Only firms that use innovation as a mechanism to redefine or rejuvenate themselves, their positions within markets and industries, or the competitive area in which they compete should be classified like entrepreneurial.

Translated into the context of the automotive industry, the analysis should focus on the role entrepreneurs play in generating innovation in a mature industry facing radical technological changes. The industry is shifting towards a new paradigm and the increasing pace of innovation determines entrepreneurs to deal with new unfamiliar sets of approaches and decisions related to the development and application of new technologies.

Uncertain and fast technological changes, long development cycles, highly research intensive product development, saturated markets and production overcapacities, environmental and safety regulations have lead to major transformations in the sector. The general belief among auto executives is that “stagnation means regression to innovation management in the automotive

industry” and that innovation is the answer to most of the global challenges the industry faces and the key factor for a strong competitive position (O. Wyman, 2007, p. 4).

Empirical and theoretical evidence emphasize a set of areas that companies in the industry need to address with a sense of urgency: cost reduction, the acceleration of innovation cycles, expansion of available products and technologies, creating collaborative networks and clusters, energy and environmental issues (Automotive Cluster – West Slovakia in Trnava, 2010, Mosquet *et al.*, 2014). Overall, there are two main types of immediate challenges concerning innovation entrepreneurs must find solution to: business development and technical issues.

First, the sector has changed lately from capital to research intensive. Several of its breakthroughs, for example in the fields of safety, new materials, hybrids and electric cars etc., represent the effort of inter- and intra-industry linkages. RDI activities are resource consuming and involve collective efforts and that is why building R&D networks that facilitate OEM-supplier and industry-academia collaboration, ease cooperation on common research projects and facilitate cost innovations in a way that takes better advantage of the local resources of regional economies is a prerequisite for innovation performance. There has been a change including within innovation networks: there is a shift towards an increased role of tier-one suppliers in matters of powertrains, interior design, chassis components, connectivity and active-safety features (Mosque *et al.*, 2014) and new actors are involved in producing the final product (e.g. Electronics and Software suppliers, Telecoms providers, Location-based service providers) (Juliussen and Robinson, 2010). The number and type of participants, the nature of interactions within and between these networks, along with the unstable business environment and a shorter product life cycle generate a high complexity of innovation tasks and decision-making.

Second, cost competition is not *passé*; it will continue to play a crucial role for the industry’s future growth as many new competitors from developing countries have developed the ability to compete globally and the segment of low cost cars is taking over. The competitive landscape has enriched with at least three fast growing players: China, India and Brazil attempt to compete with Western Europe, Japan, Korea, and the United States in designing and manufacturing vehicles. Car producers from these countries target not only emerging markets (e.g. Russia, the Middle East and Africa), but also European and American markets and their prices push traditional OEMs and suppliers to redesign strategies and re-evaluate resource allocation (e.g. Tata Motors has already introduced the \$ 2,500 Nano car) (Roland Berger, 2008). On the other hand, there is an increasing focus on the low-cost segment cars that are available at a price difference of up to 30 percent lower, forcing traditional car makers to rethink business models and adapt to market trends if they are to

remain relevant in this dynamic and evolving automotive industry. Renault's changes in the value chain represent a pattern for other companies by proving that is essential for the entire value chain to be adequately configured, and not only by choosing low wage production site. The cost advantage of a low-wage location can disappear fairly quickly since labour costs in the emerging markets have risen dramatically over the past few years. For instance, producing in Romania has helped Renault to reduce costs by 92 percent compared to France but in 2007 the increase in labour costs in Romania was of 30.2 percent relative to only 3.3 percent in France and 1 percent in Germany. In addition, labour costs in the automotive industry represent only 15 to 25 percent of all production costs so they can be easily offset by higher expenses deriving from lower productivity rate, poorer quality, higher transportation costs or greater difficulty in finding suitable suppliers (Schmid, and Grosche 2008, p 79). Therefore, locations endowed with labour force capable of delivering innovative solutions at a good cost balance between wages and skills represents part of the answer needed in the struggle for competitive advantage.

The major *technical trends* in innovation regard the shift from mechanical to software-driven vehicles involving a high development of software and electronics systems, new alternative types of engines and auxiliary systems (i.e. the electric car, green cars/ hybrids), and a quickening pace of product development (Mosquet *et al.*, 2014) To face these changes, OEMs will need either to enlarge their R&D capabilities in electronics and software or to decide on a set of selected layers developed in-house and assign the rest to be developed by Tier one suppliers. High consumers' expectations for a rapid pace of innovation will give automakers and their suppliers a hard time to maintain the current three-to five-year product design and development period. Under the circumstances, automakers will have to rely more on alternative design processes and development models, making use of advanced production techniques. In the main, the ability to anticipate consumers' tastes and projections will be crucial in selecting the most valuable innovations and creating a competitive advantage. All of these tasks assess highly qualified labour force, adding competition for talented and skilled professionals to the list of tasks automakers have to fulfil in the near future.

As for the *factors hindering innovation* in the industry, the most frequently invoked are financial factors (the high costs of innovation, supplier's financial power), market factors (the low request for innovative products, the lack of information on technical opportunities, brand competition, fuel prices etc.), and regulatory factors (design protection and intellectual property rights) (ACEA, 2004).

Summing up, major innovation challenges in the automotive sector can be translated into both opportunities and threats depending on the industry entrepreneurs' ability to make capital of the full

innovation potential along the value chain, capture growth in emerging markets and satisfy the increasing demand for alternative transportation ways. On the way automakers manage to build efficient collaboration networks and stimulate suppliers' R&D investment depends the gain of a long-term advantage and of a valuable way of cutting costs while increasing the quality of innovations.

2. Methodology

Primary data were collected from semi-structured interviews and experiential visits that took place between May and August 2014. The investigative design draws on the “subject approach that starts from the innovative behaviour and activities of the firm as a whole exploring the factors influencing the innovative behaviour of the firm and the scope of various innovation activities” (Oslo Manual 2005, p. 104). Identifying actors with particular significance for the automotive sector development provides a strong basis for the substantiation of findings.

The content of the research questions was directed to two major themes: (1) the context of factors promoting or stifling innovation; and (2) entrepreneurs' approach to and perception on innovation, in the particular context of the Romanian automotive industry. The interviewing guide was first piloted with a sector expert with an international career in senior managerial positions within large industrial groups, Mr. Jean-Jacques Le-Goff. It included a series of semi-structured, open-ended questions designed to elicit responses to those themes that would (i) describe the established value chain networks between academia, suppliers, competitors, and support institutions; (ii) shed light to the current technological development and business strategies; (iii) reveal the innovation culture and its relevance to business success and entrepreneurial dynamics.

Interviewees were selected with the intention to capture information from three perspectives: business sector, academia, and consultancy. A series of 16 interviews were conducted with: 11 managers representing the main segments of the production value chain – the car assembler and major local suppliers, 4 researchers from each of the three regional universities and one research institute, and 1 representative of the Association of Automotive Manufacturers from Romania (ACAROM). Companies were identified by following three routes: a preliminary selection based on their turnover and number of employees; suggestions from ACAROM, as a highly knowledgeable informant that views the innovation phenomena from diverse perspectives; and companies from the 'Auto Muntenia Competitiveness Pole' cluster.

After establishing contact with the stakeholders, we sent an interview guideline written both in English and Romanian to allow for increased familiarity with the topic. The interviews were held on

the site and were informal and conversational. The sessions were recorded and written notes were used to record any relevant non-verbal communication. Immediately following the interview, we met and reflected on our own perception of the session.

In the traditional paradigm the researcher is the only one that manages and draws conclusions from the research, while in the case of experiential research participants' interpretations are prioritized and focused on, rather than being used as a basis for analyzing something else (Clarke and Braun, 2013). Experiential research is used to probe the meanings of situations and to report to readers the complexity of the phenomenon (Stake, 2010). Presuming that how activities work is situational represents one of the epistemological strengths of the experiential research. In order to validate the meaning, views, perspectives, experiences and/or practices expressed in data, experiential visits took place at three emblematic sites of the indigenous automotive sector: *Technical Centre* in Titu; *Microelectronica S.A.* in Bucharest, and *the Automobile Engineering Research Centre* in Pitesti.

3. Results and discussion

3.1. Overlook

In Romania, FDI have been responsible for establishing production capacities and linking them to international supply chains. All of the major indigenous automate manufactures were taken over by foreign manufacturers, through privatisation, as the state owned enterprises were sold to foreign investors (Radosevic and Rozic 2005, p. 4). Renault S.A. bought a 51% stake in September 1999, which it further increased to 99.3% in 2003. Uzina de Autoturisme Pitesti – Dacia now called Automobile Dacia SA. Romania became a strategic base for Renault's international expansion plans. The company has undergone an extensive modernization program: changes in the industrial plants, commercial network reconstruction and reorganization of the network of suppliers. Currently, the plant is fully modernized and uses Renault Production System, one of the most modern in the auto industry (Dacia group). In 2008 Ford acquired a majority stake in Automobile Craiova, the former Daewoo owned production unit and the production of the Ford Transit Connect started in September 2009 (Ernst & Young).

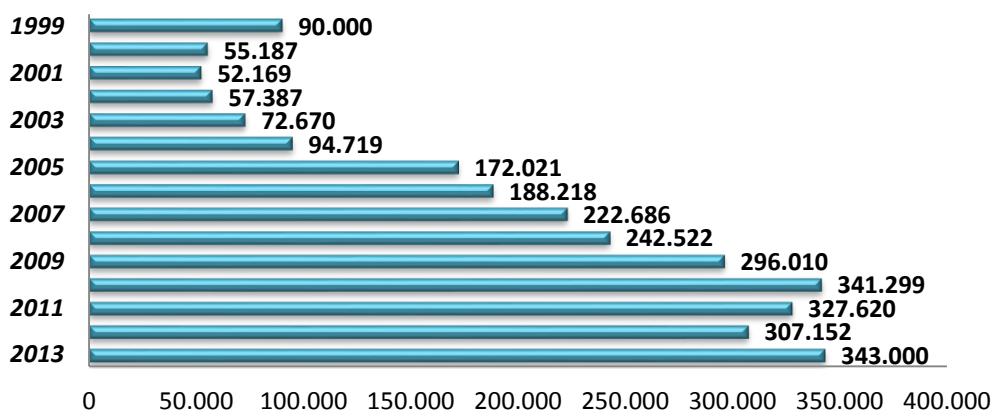
A sign of the industry maturity is the flow of RDI activities outsourced by major investors to local subsidiaries in Romania [although car producers tend to keep upstream activities in the home country]. Following Renault's decision to outsource some of its RDI activities, especially by establishing an independently operated technology centre, several foreign suppliers (e.g. Continental,

Draexlmaier, INA Schaeffler etc.) have also established RDI and production activities in Romania in order to meet Original Equipment Manufacturer's (OEM) demand. At the same time, companies with indigenous capital (e.g. Topoloveni Auto Parts, Componente Auto Pitesti, Ronera Rubber Pitesti etc.) have developed their own products that have penetrated global value chains in the automotive industry.

For the production of Dacia range Renault has developed a complete chain of activities specific to the automotive industry, from manufacturing (Mioveni) and engineering (Renault Technologie Roumanie) to innovation, market research, product design (Renault Design Central Europe), testing (Titu Tehnical Centre), marketing and after-sales (Renault Commercial Roumanie). Based on this approach, Dacia has had a spectacular evolution over the last 15 years, moving from the status of local brand with a single product to an international brand delivering a full range of models. For both international press and industry analysts, the evolution of the Dacia brand represents a worthy of note case study that highlights the unprecedented dynamism of a car manufacturer. The company's success is reflected today in the range of 8 models sold under a "smart buy" strategy (Sandero, Sandero Stepway, Logan, Logan MCV, Dokker, Dokker VAN, Lodgy and Duster). The key lies in Dacia's decided to be out of the race for facilities and focus on the essentials (Pescaru, 2013).

The evolution of the range can be best emphasized by production, sales and price figures. As emphasized in *Figure 1*, the annual output of the Pitesti plant has increased from 55,187 units in 2000 to 72,670 units in 2003 (daciagroup.com). The annual output has reached 100,000 units shortly after the launch of the Dacia Logan in 2004 and the launch of 1.5l dci Logan in 2005 brought a new production volume record, almost twice higher than in 2004 (<http://romaniancar.com/dacia/>). The ascending trend was continued with a production of 343,000 vehicles in 2013 and of 314.719 units in the first 11 months of 2014.

Figure 1- Dacia passenger cars production (units)



Source: Ziarul Financiar, 2013

The increase in production volume was accompanied by a growth in sales of almost 43% in the first four months of 2014 relative to the similar period of previous year, making Dacia the most dynamic car brand in Europe (main export markets of the brand are France, Germany, Spain and Italy) (Dacia group). Dacia has reached a market share of 2.9% in the EU in the first 11 months of 2014 with nearly 372,000 units registered, up with 27% over the same period in 2013. Following the growth of 0.5% percentage points of market share, Dacia exceeded Kia (2.8%), Seat (2.5%) and Volvo (1.8%) helping the French automaker to reinforce its position as the third largest producer, with 1.21 million cars sold (a quarter were Dacia) (Zamfir, 2014). The best-selling model in the European market assembled in Romania in the first half of 2014 was Sandero, with 77,400 units, followed by another product from Pitesti, Dacia Duster (Alecu, 2014).

The price evolution of the range proves a shift of strategy from the low cost segment to the “value for money” one. For instance, for the top version (Laureate 1.5 dCi 90 hp) of the new generation of Sandero is currently around 11.500 Euros, while the first version launched in 2008 reached a maximum of 9.350 Euros (Nan, 2008). Dacia entered the market with the Logan for only 6.000 Euros and it has reached the top price of 20.000 Euros for Duster in the European market (Barza, 2014). The features mix available on Dacia cars sold is in line with the smart buy strategy applied in Europe: “only technology for which there is a extremely high demand like the new navigation system and the reversing camera” (Dacia group). The use of differentiated strategies according to costumers’ willingness and interest to pay for additional features proves the maturity reached by the brand and seems to be the key for a sustainable evolution of the range on both European and developing markets.

2.1. The context for innovation

Interviews data indicate that there are structural, financial, and institutional factors that generate an unfavourable environment for innovation in the region, which we gather in Table 1.

Table 1 - Major obstacles to innovation

<i>Structural</i>	Difficult access to qualified personnel
	Poor technological infrastructure
	Limited demand of R&D from industries and other users
	Low international visibility of the R&D activity from Romania
	Lack of funds

<i>Financial</i>	The high cost of licensing and / or acquisition of new technologies
<i>Institutional</i>	Embryonic business support services Unpredictable R&D policies Low institutional performance and bureaucracy Regulatory factors

Source: Interviews' data

Among structural factors, the main concern expressed by entrepreneurs is related to the regional labour supply. A key obstacle for innovation was identified with the lack of suitably qualified personnel, both scientific and managerial. It is hard to find specialists and this is mainly an effect of one of three situations: the educational system does not provide graduates with the needed skills in the production and research field; top students that could bring value added decide to emigrate or are “hunted” by foreign companies and, last but not least, young specialists choose better paid public positions.

The financial drawbacks refer to both national and European funds intended for innovation. In absolute terms, Romania’s per capita spending on research and development are nearly 20 times less than the European average. On the other hand, the demand for RD is low, is not stimulated enough nor sufficiently stimulates other economic sectors. Although multinationals play a catalyst role for knowledge-based start-ups and technology clusters, large foreign companies stress the fact that despite their interest to invest in RDI activities, funding possibilities are scarce and small and medium enterprises are somehow privileged in accessing European funds. On the other hand, companies that have applied for European funds have been discouraged by bureaucracy and by delayed payments and are now quite prone to doubt about future collaboration with the public sector.

Business support services in the region are still at an incipient phase and there is a lack of communication channels through which innovation is transferred or assets involved in the regional innovation processes are connected.

Romania should solve several fiscal and legislative issues in order to attract large companies in the industry to develop RDI capacities here. Romania is perceived as having a hostile intellectual property environment on the grounds of some past episodes involving Dacia employees that have claimed and gained through the legal system the “paternity” of several innovative improvements. One of them is the Intellectual Property Rights law that is on hold, and the other one is the legislation concerning counterfeit products and visible parts of the car should tighten up as to lower the massive 33 percents of counterfeit Dacia car parts available on the market (ACAROM).

The fiscal system implemented in Romania is perceived as ambiguous and unpredictable by foreign companies that complain about the permanent uncertainty concerning the number and types of taxes that must be paid. At the same time, the fact that the tax deduction for RD investments is conditional on a share of 15% RD investment in total turnover and is related to the company profits, makes the instrument of little applicability.

When it comes to *factors driving innovation*, entrepreneurs state that competition represents the main engine that pushes companies to innovate and keep up with the latest trends, the presence of foreign competitors in the region proving a positive impact on domestic companies' preoccupation for innovative activities. A second factor highly related to competition is the OEMs strategy towards innovative solutions. The final producer is the one setting trends and in the struggle to offer the best solutions, companies seek for better materials, production methods or the latest technological equipments. Most of the automotive companies in the region have Renault as main customer and this can be seen as both a stimulating and a hindering factor: having an OEM in the region is a good stimulant for companies to invest in innovation, but it can also slow them down since there is the certainty of the demand for their products. Dacia range is known as a low-cost class of automobiles and perhaps at first sight innovation in the case of low-cost vehicles may seem somehow bizarre. Actually, it seems that this is quite the opposite: whereas in the case of premium class vehicles clients are willing to pay for the latest functionalities and improvements and spending money on innovation is not a problem, the real challenge in the low-cost segment is how to innovate and keep it cheap. The idea is also shared by the sector experts that stress the importance of employing local workforce in the upstream activities in the case of low-cost cars. Thus, a delocalization of RDI capacities is a key factor in the success of low-cost cars.

Among factors stimulating innovation were also mentioned the attendance to international fairs and conferences, the practice of disseminating "Best Ideas" to other factories in the group, continuous training, entrepreneurs' attitude and experience in the field. To our surprise, all of the mentioned factors are external ones, i.e. industry and market-driven reasons. None of the entrepreneurs mentioned intrinsically/inner reasons that would motivate them to design and develop new products or technologies. Still, entrepreneurship is somehow equivalent with the impulse to create and innovate, with a desire to implement innovation and with motivating others to participate actively in its implementation.

In line with the general approach in the industry, the type of innovation mainly developed by companies in the region regards *process innovation*. The acquisition of new equipments and machines

is often perceived as innovation and maintaining a top level of used technologies represents a key factor in preserving market competitiveness.

2.3. Innovation culture and its relevance to business success

The section depicts entrepreneurs' attitude and perception towards innovation, ways of promoting innovation culture in the company, and the capacity for innovation at firm level.

Opinions on the innovation issue were convergent towards emphasising the imperative need for innovative activities at the current stage of the region and of the industry. The general message is that innovation represents a mandatory investment and that companies that do not keep up with the major trends are out of the market in no time. Furthermore, entrepreneurs estimate that in less than four years there will be no company on the market without a clear RDI strategy, innovating either on its own or in partnerships. In other words, stakeholders in the industry are very much aware of the role innovation has gained in driving competitive advantages.

The *most relevant entrepreneurship skills* required for creating and running innovative projects in existing or in start-up firms in entrepreneurs' vision are risk assessment, self-confidence, and the capacity to motivate others to achieve a common goal. Several other qualities needed for an innovative entrepreneur are strategic thinking, the ability to make the best of personal networks and the capacity to deal with challenges and insecurity. The founder's attitude and experience in the assembling process also has a great influence in gaining technical advantages. For example, managers that have modified out of date equipment have significantly improve its performance by adding extra functions and thus transforming it into a unique resource for the company.

In the analysed companies innovation is perceived mostly as a collective effort rather than an attribute of the entrepreneur. The entrepreneur is perceived as an *initiator/ promoter*, in charge with finding the suitable way to key up the personnel. The manner of stimulating employees to be creative and innovative is quite similar among companies in the region: financial incentives are the most commonly used in the attempt to promote innovation culture among employees, followed by hierarchical accession possibilities, and the Kaizen methodology. A key factor in motivating workers seems to be the personal example of the entrepreneur and group's appreciation.

Entrepreneurs' perception on the cost/benefits ratio is decisive in the decision making process of investing in innovation. This is why they were asked to make a cost/benefits analysis of investing in innovation at the current stage of development of their organization and of the automotive market in Romania in general. Results show that despite the fact that costs are considered high and a positive

impact is expected on the long run, benefits weigh more for the entrepreneurs. They are aware of the economic benefits innovation provides to a company and point mainly to: cost reduction and efficiency improvement leading to an increase of competitiveness, gaining customers and suppliers' confidence, hence a portfolio diversification of both clients and markets.

The innovation concept seems to be familiar among entrepreneurs and regional structures representatives, but a clear picture of how innovation is really approached can be obtained by looking at the *resources organizations assign for RDI activities*. The critical question is to what extent firms are internally active in RD and innovative activities and a relevant indicator can be the percentage of the turnover/ total sales dedicated to RDI spending. Companies in the region are characterized by non-systematic patterns of engagement, have no clear strategy or budget concerning RDI spending [only two of the interviewed managers were able to mention a percentage of the turnover assigned to innovation (around 3%)]. The absence of committed resources speaks for itself about the maturity of Romanian companies in approaching innovation. On the other hand, industry stakeholders deem that human resources are the governing resource in RDI processes and technical qualifications are the ones that make the difference in the automotive industry. From their point of view, the know-how is the most durable investment that can lead to sustainable and continuous growth.

2.4. Interactions, networking, and the local productive environment

This section analyses relationships developed between firms in the automotive industry in Muntenia region and with the research and support base of the region.

Typically, to carry out RDI activities represents a strategic and long-term process; it takes time to undertake tests and to deliver production-ready products or technologies. In the case of the automotive industry, RDI activities rely on significant investment efforts and, more and more, on partnerships with stakeholders.

The analysis of entrepreneurial behaviour shows that in general the cooperation spirit among the firms in region is low. The majority of the sampled companies reported no type of cooperation with direct competitors or with up-stream and down-stream partners. Explaining this attitude, answers go from a certain mentality managers have towards cooperation to a lack of interest and vision on the benefits arising out of a partnership of this kind. The collaboration with other firms happens especially in the light of the affiliation to a number of professional organizations such as ACAROM, UGIR 1903 and the local Chambers of Industry.

There have been several attempts to gather industry representatives in common projects or at regional debates and most of them have had no success due to the resistance when it comes to cooperation. Nevertheless, companies willing to cooperate manifest a higher interest for common projects with local companies rather than with distant partners. They also tend to engage in cooperation with competitors rather than upstream or downstream related firms.

However, there are several examples of good practice implemented in the region at Renault Tehnologie Roumanie' initiative. A competitiveness pole was created in February 2014 that includes regional companies, universities, and public authorities with the aim of strengthening cooperation on RDI activities between involved actors. Overall, entrepreneurs manifest a positive and optimistic perspective regarding the effects on companies' activity as a result of this project and consider that cooperation at the regional level will generate external economies of scale and thus an increase in efficiency. Another attempt to intensify cooperation was Renault's initiative to develop the Alliance Suppliers Improvement Program (ASIP), "an intensive Logan supplier training plan program through which Renault sends some of its employees to supplier companies to assist in optimizing procurement and quality assurance and to transfer the necessary key technologies" (Schmid and Grosche 2008, p.84).

Ccooperation with the science base of the region, regional and local administration, and with business support organizations does not seem to be on the priority agenda for most of the firms. At the same time, business support services in the region are still at an incipient phase and there is a lack of instruments that may create communication channels between assets involved in the regional innovation processes and facilitate the transfer of academic researchers' ideas into new products or services.

As for joint research contracts with the academia, these are not frequent either. When concluded, they have a specific purpose and do not become permanent. Several reasons explain this situation: lack of modern laboratories in universities and research institutes, outdated research curricula, timing differences between the short cycle planning firms have and the longer timescales of academic research. Business representatives stress that it takes too much time for universities to deliver a research offer, it involves lots of people, results are provided in too long time and are sometimes out of date compared to the needs companies have. At the same time, academia points to the low demand for RDI projects coming from the business sector and to some slight differences in the way the two parts manage intellectual property rights. All these factors lead to meagre demand for public research and to a low rate of collaboration between research organizations and firms.

2.5. *Perspectives on innovation*

Interviewees were asked to offer suggestions for an effective improvement of the regional innovation framework from a list of available measures and to mention perspectives regarding RDI activities. The most widely held suggestions, mentioned by the majority of the interviewees, are related to a higher consistency in RDI policies along with a greater emphasis placed on industrial research. Overcoming financial drawbacks demands for an ease of access to European funds and a higher budgetary allocation for RDI, accompanied by subsidies for innovative activities, and provision of tax incentives for RDI activities and clusters development. An increased attention should also be paid to the endowment of universities and research institutes' laboratories and to supporting researchers to attend international conferences and fairs on RDI in the automobile industry. Other recommendations with significant support from the stakeholders include the provision of useful information, best practices transfer from abroad and better local support mechanisms and institutions.

Table 2 - Main recommendations for innovation improvements

<i>Structural</i>	Adequate wage policy in the public research sector Increase R&D demand from the private and public sector
<i>Financial</i>	Introduction and use of new financial and non financial instruments Stimulation of participation in international RDI fairs Endowment of universities and research institutes' laboratories
<i>Institutional</i>	Regulation and standardization of RDI policies Better local support mechanisms and institutions

Source: Interviews' data

The general state of mind concerning future RDI activities is positive and optimistic from both company and regional perspective. The RDI component is intended to be developed especially by accessing more structural funds and by expanding product and customer portfolio.

Nicolas Maure, Dacia Director, foresees new projects for Renault, Nissan, Daimler or Avtovaz to be developed in Pitesti especially since improvements of the overall quality of the production process have been made and the qualities of Romanian employees have increased significantly. Currently in the regional industrial base an integrated project can be completed: starting with the draw and design of new cars style, to testing and validating them. It's a unique situation in Eastern Europe that creates opportunities for the development of the low price cars competing on global markets, not just in Europe. It is up to Romania to continue to build on its attributes.

Conclusions

The Romanian automotive sector proved an adequate research platform to weigh the prerequisites of innovation against the need to transform its virtues in entrepreneurial success due to a mix of strengths and vulnerabilities specific to a relatively mature market. The findings of this paper suggest that there is a series of three factors underlying the innovative performance at regional and industry level and affect the pace and direction of entrepreneurial creativity.

The first one is the presence of an *innovation friendly business environment*. Unfortunately, most of the potential sources nurturing further innovative processes remain idle or at least insufficiently taken advantage of in order to overcome an 'autarchic' entrepreneurial culture. Targeted policies, adequate investment incentives, or public campaigns are needed to turn bright ideas into drivers of competitive advantages. Priorities should include improvement of regional business support services, consolidation of communication networks, increased openness towards new ideas and cooperation with entities within and outside the region.

Second, *entrepreneurs' personality* is a key factor in stimulating innovation. The personal example of the entrepreneur, his attitude towards new ideas and experience in the field play a crucial role in developing innovative solutions. In other words, entrepreneurs themselves are among the drivers of innovation and their attitude towards innovation is crucial, a finding that brings us back to the conundrum of the decisive determinant between innovation and entrepreneurship.

Third, the market research revealed that the *external competitive environment* translated into demand for innovative products, latest industrial trends, shortening of production and lifecycle of products, environmental and legal issues, and fierce global competition are key forces driving entrepreneurship at the regional and industry level. All this pressure determines a preoccupation for an innovation adequate environment and for a higher openness towards cooperation.

Maintaining competitiveness relies mainly on two factors: wage level and industrial performance. On the wage side, Pitesti (Romania) has registered a wage rise of 170% from 2007 to 2013 at an inflation of 30%, meaning that real wages have increased by 140% (Schmid, and Grosche 2008, p.90) [30.2 % in 2007, 33% in 2008] and is currently under tough negotiations on a new wage increment of around 15%. In other words, in relative terms Romania is no longer a low cost location for Dacia and must face strong competitiveness competition from Morocco and Turkey plants. The danger of relocation will increase if the shortcomings in the innovation capacity that restrain future value chain development will not be improved. Pitesti is the group's second largest platform (after

the Lada-AvtoVAZ) and to remain so it must be at the highest level of quality, production timing and rely on technical and management professionals that can successfully contribute in products renewal. The evolution of the global industry within the next 15-20 years (electric cars, hybrid and autonomous cars) demands for a strong commitment to quality, innovation and cost management.

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THE INFLUENCE OF INCOME AND EDUCATION LEVEL ON ISSUES OF RELIGION IN ROMANIA

Alexandra Georgiana PARASCA*

Abstract: *In this research paper the main focus is on religion and how it is influenced by income and education level, how people from different social classes look at religion nowadays. It is a known fact that our income, our education will influence our opinion regarding religion and I analyzed these aspects using a survey carried out by Gallup International for 2014, in Romania. The statistical data shows us clear differences between people with low income and basic education, and people with high income and high education, when it comes to religiosity. Therefore, we can say that income and educational attainment impacts religious belief, but we have to take into consideration that there are exceptions among people and this does not apply to all.*

Keywords: income, education level, religion, Romania

JEL Classification: Z12

Introduction

The economics of religion is trying to address issues which before were approached by other social sciences: the determinants of religious belief and behavior, the nature and behavior of religious institutions, but also the economic impact of religion. Today, we can talk about a secularization movement and the decline of religion. Therefore, it is important to take in consideration how societal and individual attitude regarding religion evolves (Barros, Garoupa, 2002).

It is said that culture has a role in influencing economic outcomes, therefore, it affects personal traits like honesty and work ethic. One of the main theories is the hypothesis of secularization through which the economic development determines individuals to be less religious. Also, economic development determine organized religion to intervene less in political decision making and in legal and social processes (Barro, McCleary, 2003). Weber (1930) says that religious belief and practices have important consequences on economic development.

1. Research Issues

The purpose of this paper is to observe the influence of income and education level on issues of religion in Romania, how do individuals approach religion depending on their income and education, how it affects religious participation, the level of trust in religious leaders and institutions, to understand the role of religion in people's life, but mostly how this is perceived in Romania. This

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research takes into account the relationship between income, education and religion, about positive and negative aspects of this relationship.

2. Literature Review

Some researchers believe that there is an inverse relationship between social class and religious practices, ideologies and affiliation. Group members of an inferior social class will prefer more strict and conservative religious ideas, behavior determined by a strict education in their childhood, so it is more likely that they recognize authority. People from a superior social class prefer religious ideology that will confirm their position in society.

A traditional sociology of religions reflects that individuals affiliate with religious groups who are numerous with people of the same social status or groups with a higher social status than theirs, because of the benefits and prestige which these groups offer (Sherkat, Wilson, 1995). Stark and Finke (2000) present a theory in which the relationship between social class and religion determines the middle and superior social class to be attracted by other aspects of religion, to those who are from an inferior social class.

Social class, represented especially by education level and income, is a key predictor of religious activities and preferences (Schwadel, 2012). Many factors are behind the discrepancies between religions, some of them are more obvious, like education and income (Leonhardt, 2011). Norris and Inglehart (2011) believe there is a probability that people are more religious when their lives are at risk, therefore, poor nations are more likely to be religious and wealthier nations tend to be more secular. Nevertheless, there are some countries with poor population, like Vietnam, who are not religious, so there are some exceptions from the “rule” (Grant, 2011). Other researchers believe that religious people are more accepting of a life of perpetual economic hardship. They consider that their belief in God determines them to not assume the responsibility when it comes to evaluating, questioning and improving upon the shortcomings of their state (Palani, 2008).

Lipford and Tollison (2003), by using US state-level data, argued that religion can have an important effect on the level of income of its adherents, religion being the one who discourages acquisition of material wealth. This starts from the religious teachings which talk about “afterlife consumption” and “treasures in heaven”, opposing the idea of present consumption and “treasures on earth”, and religious people/participants with low income will be likely to favor “afterlife income” over present income. They also conclude that income alters religious participation and they try to understand religion’s role in people’s lives.

Education is seen as a key factor when it comes to the decline of interest in religion, in modern society. The higher the level of education is, the more it erodes the individual's participation and religious belief. The theory of secularization sustains the fact that people become less religious when education level is higher, focusing on the idea that science has a destructive influence on religious belief. The conflict between religion and science is obvious, mostly when religious knowledge is in contradiction with scientific one (Schwadel, 2011). Ruiter and Tubergen (2009) take into consideration in their research paper that better educated people abandon religion and if people do not have to worry about their future, they are not so interested in religion. Hungerman (2014) estimates through his results that education might lower religiosity, considering that when we are exposed to secondary education, our earnings and professional options, knowledge of science and familiarity with other cultures might alter.

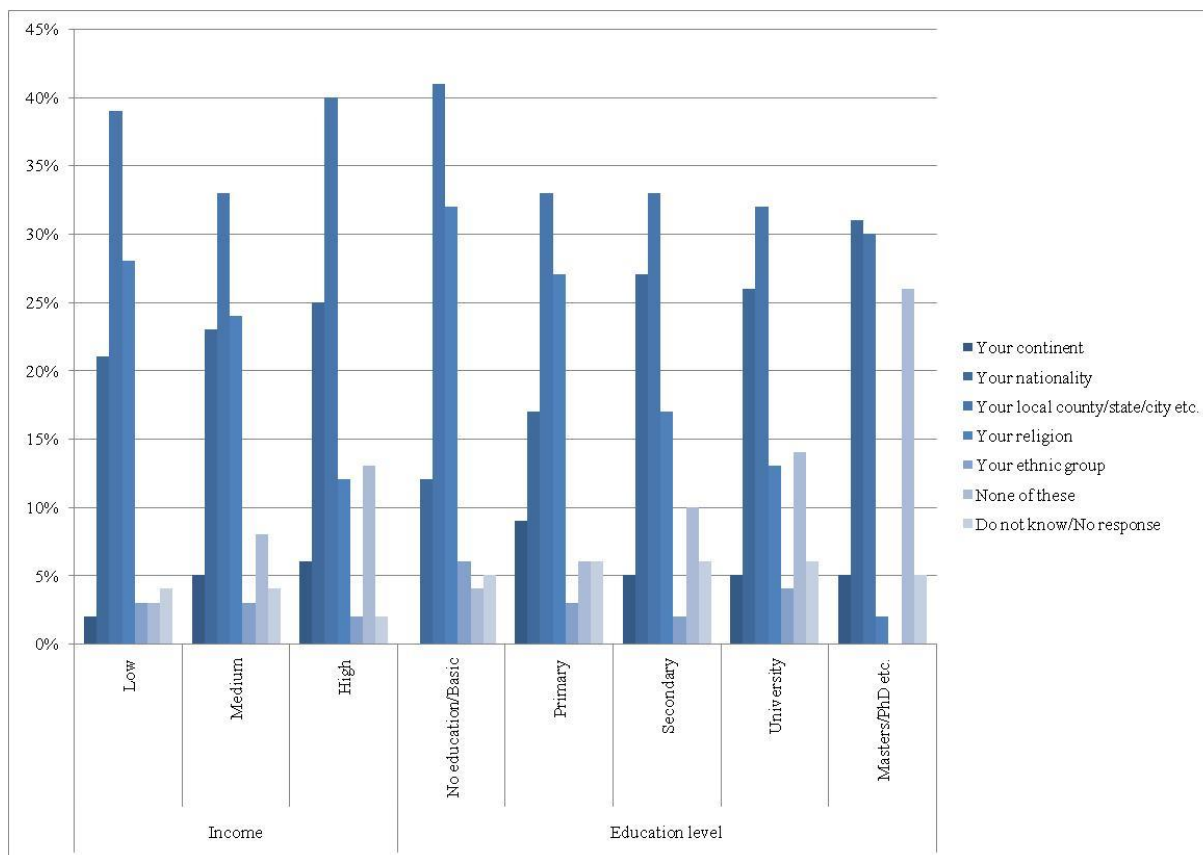
3. Method and Methodology

This research paper is based on bibliographic study, analyzing articles which approach themes like economics of religion, religion and income, religion and education, using bibliographic database, but also other resources. I used statistical data collected by Gallup International through a survey which was held in 2014, using only the data concerning religious aspects, and processed them using Microsoft Excel.

4. Research Results

After analyzing the statistical data, it results the fact that income and education attainment impacts religiosity among Romanians, observing differences in results depending on low/ high income and basic/high education. The aspects taken into consideration are: the importance attached to religion, the degree of religiosity, how much they empathize with refugees who are deprived of religious and political freedom, and how trustful are in religious leaders.

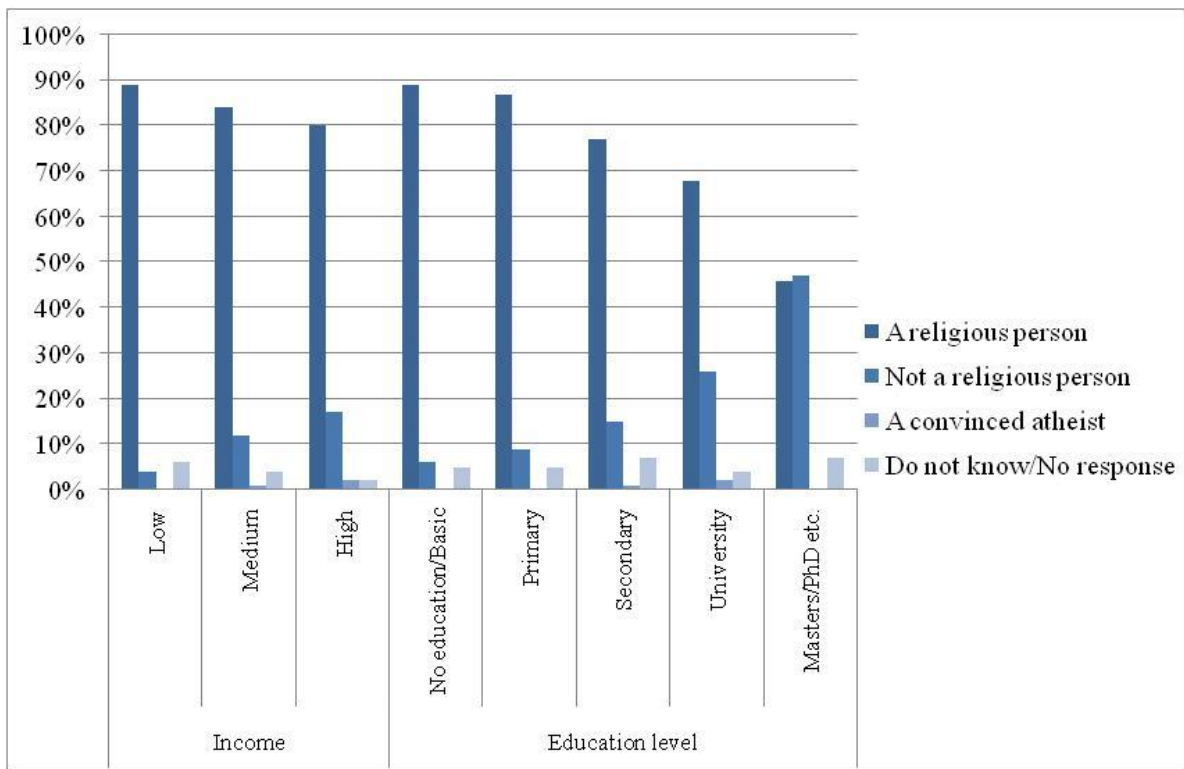
Figure 1 – The importance attached to religion compared to other aspects, in relation with income and level of education, Romania, 2014



Source: statistical data from Gallup International Association (www.gallup-international.com)

We could easily see that persons with a lower/medium/high (39%/33%/40%) income give more importance to their local county/state/city, while religion comes on the second place for people with lower and medium income, with 28% and 24%, but for the persons with a higher income, religion comes on the fourth place. Some researchers believe that religion occupies an important role in seriously dysfunctional societies, and according to them there is no situation where a really highly religious nation is highly successful socially (Stastna, 2013). Regarding the educational level, the people who give more importance to religion (32%) are with no education or basic education, while people with higher education (masters, PhD etc.) give less importance to religion (2%), considering that nationality is more important (31%).

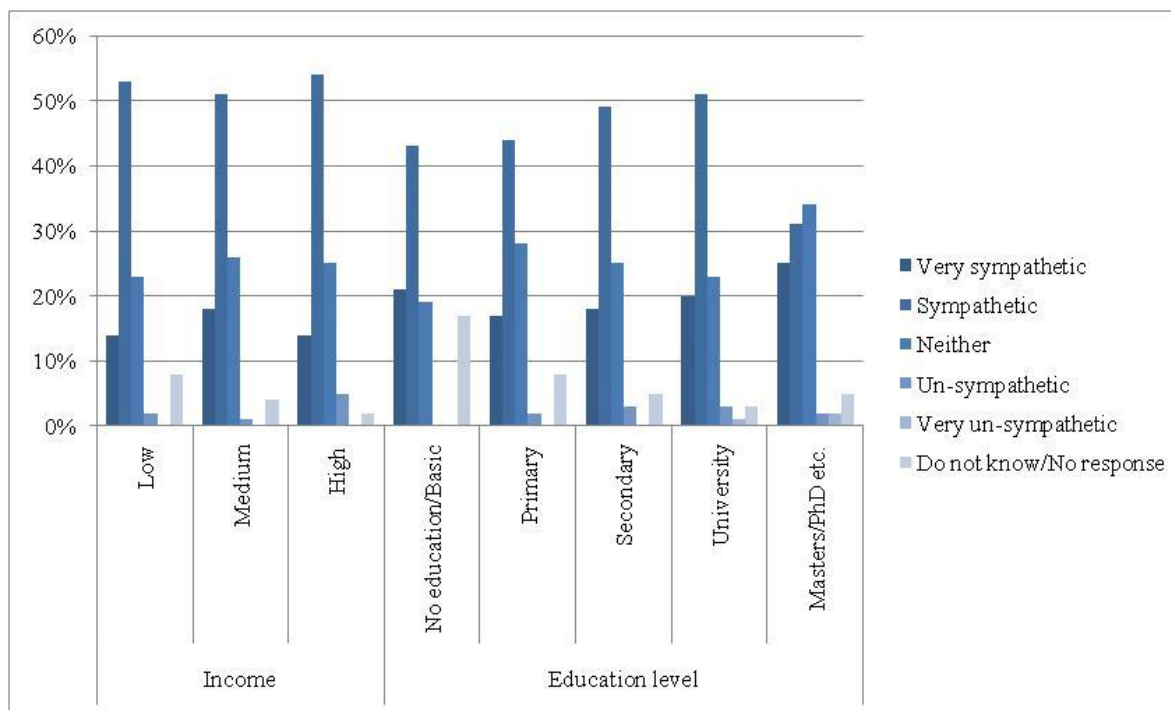
Figure 2 – The degree of religiosity of Romanians in relation with income and education level, 2014



Source: statistical data from Gallup International Association (www.gallup-international.com)

Even though from the previous figure we could observe that people with a higher income do not give much importance to religion, most of them consider themselves religious persons (80%). From the comparison, we can observe that people with a lower income are more religious persons (89%). When we talk about not being a religious person, we can see in **Figure 2** that the percentage is bigger for the persons with a higher income. After the research made by Gallup, they realized that most of the religious countries are relatively poor, reflecting a strong relationship between a country's socioeconomic status and the religiosity of its residents (Crabtree, 2010). This happens because the residents of these countries find help in religion when they have to struggle with daily problems, providing for their families, etc. This also applies to people with lower income. When it comes to education level, we can see that the percentage it is gradually decreasing, from people with basic education to people with higher education, the most religious persons being the ones with no education/basic education. Thus, we can conclude that if a person's level of education is higher, it is likely that he/she is less religious, but it is not generally available.

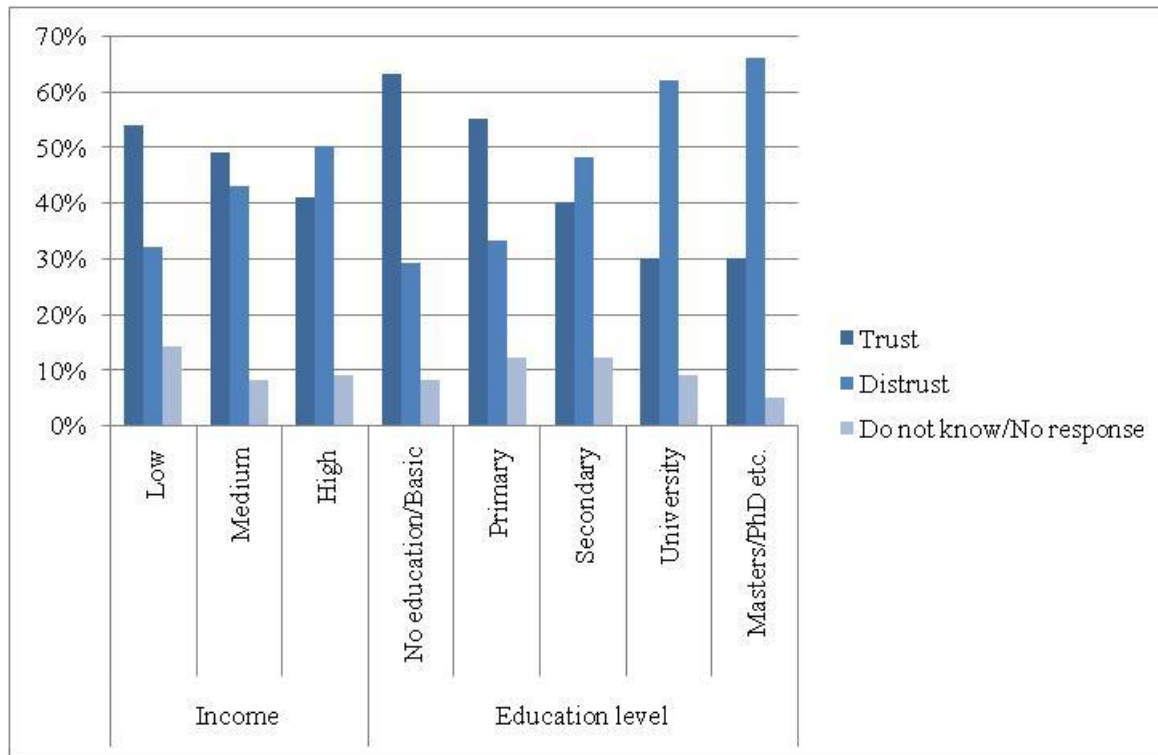
Figure 3 – How much Romanians empathize or do not empathize with refugees who come in their country for the following reason: lack of political and religious freedom in their country, 2014



Source: statistical data from Gallup International Association (www.gallup-international.com)

It is obvious from the **Figure 3** that when we speak about refugees who come in Romania because of lack of political and religious freedom in their country, we can observe that it does not matter the level of income or education, most of them being sympathetic when it comes about this matter. Maybe this is the result of the education we receive at home, where we mostly learn how to be tolerant with others. Another cause it would be the fact that most of them can relate with their issues and empathize with their problems. Also, Romania is a country who protects religious freedom through laws and policies, though there are some restrictions for minority religious groups in terms of registration requirements and granting official religious status, as the US embassy in Romania said on her website in the Report on International Religious Freedom (2013).

Figure 4 – The level of trust that Romanians grant for religious leaders, 2014



Source: statistical data from Gallup International Association (www.gallup-international.com)

In the fourth figure it is represented the level of trust that Romanians grant for religious leaders. As we can see, people with higher income do not trust so much religious leaders, like ones with lower income do, the difference between these two groups being of 13%. We have the same result when it comes to education level: people with no education/basic trust religious leaders, while at the opposite, stand people with higher education (masters, PhD etc.) who distrust religious people. Maybe this distrust comes from the fact that religious belief is contradictory to evolutionary science, who most of people with higher education identify themselves. Another reason may be that people feel misrepresented/misunderstood by religious leaders, or their attitude towards people confronting problems could be outdated (Voeten, 2013).

Conclusions

In this research I analyzed the impact of income and education level on religious issues like religiosity, how important is religion in their life, what opinion do they have regarding refugees for religion reasons and how much do they trust religious leaders. After analyzing the statistical data I could observe the fact that there is a difference between people with higher income and people with

lower income, and this also in the case of people with no education/higher education. Those with higher income and higher education tend to be less religious, to be more oriented towards scientific facts, to be more distrustful when it comes to religious leaders, to put their nationality on a pedestal before religion. At the opposite stand people with lower income or lower education who are more religious, tend to put religion, if not on the first place, at least on the second place, are more trustful in religious leaders. However, there is a common ground for both of these categories: they both empathize with refugees for lack of religious and political freedom, here being a slight difference between results.

That being said, we can conclude that there are visible differences between these categories of social classes and it can be said that income and education level have an influence on religious aspects of Romanians life. They have different opinions due to the fact that they live in different social worlds, are part of a different social class. This is just a mere and general interpretation, taking into consideration the statistical data, but we have to take into account that there are also exceptions: not all people with high income and high education are less religious or distrustful in religious leaders, and not all people with low income and basic education are very religious.

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MAJOR ISSUES IN BRINGING ABOUT SUSTAINABILITY

Mircea SAVEANU*

Abstract: *Research on sustainability is now fast approaching half a century of dedicated work. Although there have been significant breakthroughs, sustainability and its corollary, sustainable development, have proven a tough nut to crack. In our paper, we have started from some fundamental questions, which have yet to be answered and analyzed the implications that stem from these questions. Going past the problem of weakly quantifiable concepts in the definition, a very important issue is that of individual and community preferences. Specifically, these are all short to mid-term lived, while some sustainability problems, particularly those relating to the environment require a significantly longer time period. Another implication is that, given our limited resources, sustainable development would require a careful balance between investments among the three pillars of sustainability, and not follow a maximization policy. Lastly, we conclude that basing our sustainability policies on premises of linear evolution is a dangerous undertaking.*

Keywords: sustainability, preferences, sustainable development, resources

JEL classification: Q01, Q58

Introduction

Sustainability has become a household name in our times. Whether discussing household finances, regional social equity measures, or global environmental concerted actions, the term is used invariably to describe serious and complex issues that are facing humankind.

Two things should be taken at face value, thus far: 1. Sustainability or sustainable development should be understood as an umbrella concept, relating to various social/economic/ecologic issues (*e.g.* Daly 1991; Daily 1997); 2. These issues are complex. If sustainable development would have been an easy task, discussing it would have been a simple trend. The fact that the issue is not only relevant, but pressing towards assuring the survival of our species is a testimony to the complexity inherent in it.

When faced with complex issues, it is sometimes useful to take a step back and ask ourselves if the research questions are adequately addressing the problem, and, if this is the case, what are their implications. In this article we try to determine why sustainability is still an issue, by posing a number of questions and following up on them by assessing their logical implications.

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1. What exactly is sustainability?

This question was raised multiple times in debates on sustainability*, and it is still a core problem facing any researcher involved with the subject (e.g. Beckerman 1994). Take some of these definitions, for example:

We take development to be a vector of desirable social objectives and elements might include: increases in real income per capita, improvements in health and nutritional status, educational achievement, access to resources, a 'fairer' distribution of income, and increases in basic freedoms. [...] Sustainable development is then a situation in which the development vector increases monotonically over time. (Pearce & Markandya 1988, p. 4)

„A sustainable system is one which survives or persists” (Costanza & Patten 1995, p. 193)

In the narrowest sense, global sustainability means the indefinite survival of the human species across all the regions of the world. A broader sense of the meaning specifies that virtually all humans, once born, live to adulthood and that their lives have quality beyond mere biological survival. Finally the broadest sense of global sustainability includes the persistence of all components of the biosphere, even those with no apparent benefit to humanity (Brown et al. 1987, p. 717).

And there are many more definitions, but what we would like to highlight at the moment is that there are many takes on this concept. Legitimate questions following these definitions would be: Is sustainability necessarily dependent on growth? Does sustainability equal survivability or does it supersede in amplitude concepts of mere subsistence? And, if this is the case, how far above plain survivability do we set the threshold? Does everyone adhere to this setup, and is everyone equally represented? Is sustainability of other species a worthwhile endeavour? Can we selectively and viably sustain certain, desirable, species of life, without any harm to the environment?

And, just as there are plenty of definitions, so there are plenty more of such questions. As one can clearly see, the issue is not at all settled. Under this heading we will be discussing the underlying motive for such recurrent debates.

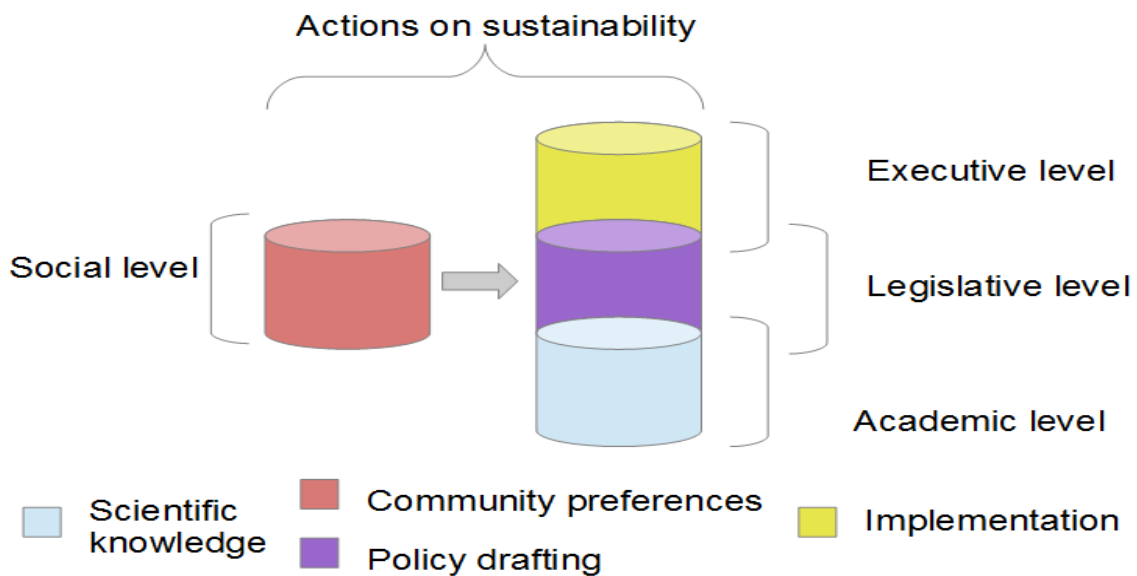
In essence, every policy on sustainability is contingent on what we perceive to be necessary, in order to bring about sustainability. This means that, barring human errors in the implementation stage, sustainability policies can fail from the start in two ways:

* John Pezzey published several great analyses on the topic of sustainable development (Pezzey 1992a, 1992b; Pezzey & Toman 2002)

- Our perception of what is necessary in order to bring about sustainability is wrong or otherwise unrelated to real-life happenings. For example, if at a certain time, one would implement a strategy seeking to give free access to cable TV to every home in the world, this would clearly be unrelated to any serious policy on sustainability.
- We lack the kind of scientific knowledge required to ascertain sustainability requirements. For example, if in the near future, a severe calamity would hit the Earth, a lack of such knowledge today would allow that event to happen. Conversely, if we have at least some hints today, one could conceivably implement a strategy diminishing the risks of the calamity in the future (assuming we have the methods to do so).

The latter point is somewhat pointless to debate, since there is only one remedy for it: scientific progress, which will be further discussed at the end of the current paper. The first point can be expanded, though. Essentially, any action on sustainability is based on the following rationale:

Figure 1 – A possible structure for actions on sustainability



As such, scientific knowledge opens the way to deciding what is necessary in order to ensure sustainability and how to implement it. This is true whether we are talking about research in ecology, for example, which would maybe lead to better rules governing human-environment interactions, or research in sociology, seeking to ensure better social inclusion for disadvantaged families. The academic level, thus, serves as a basis for all future talks on what is to be implemented and how it might be implemented.

On an upper level, the legislative level issues laws, but only after it receives social feedback

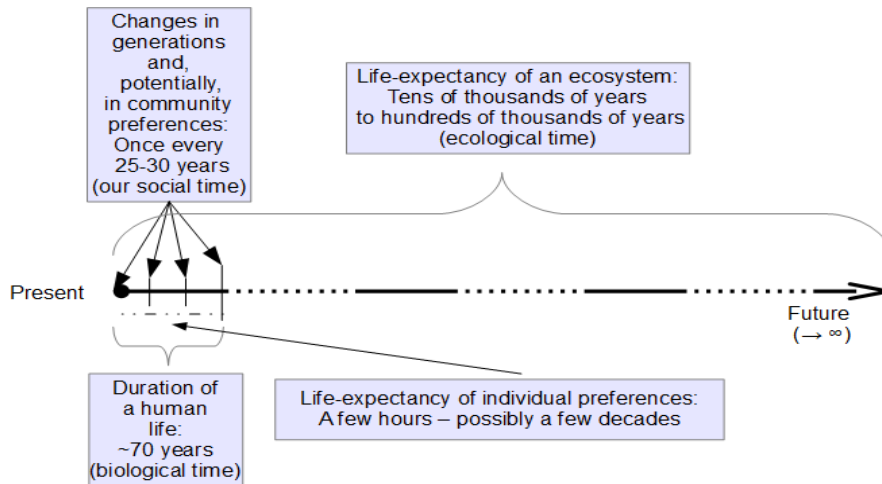
from the society. For example, there is research showing that the polar ice is melting, due to global warming, and this acts like self-catalyzing process, further facilitating our global warming (*e.g.* Screen & Simmonds 2010). On the social level, however, there are still significant groups of individuals who, for various reasons, do not consider this as important towards the sustainability of humankind. Therefore, although the legislative and, to an upper level, the executive need to base their decisions on solid scientific knowledge, they also need to take into account the community preferences, as expressed in democracies (lest there be a tyranny of sustainability, as David Pearce noted – 1998, p. 48).

After laws have been agreed upon, the executive level issues the necessary orders, which finally completes the actions on sustainability cycle.

On the whole, we could assign the right hand side of the graphic the title of bureaucracy/administrative component, since, in general, it is the job of these people to take care of sustainability policies, among other things. The left hand side, made up by the social component does not have this peculiarity. In an ideal world, or, a dystopia, depending on which view you have on the problem, the community at large could be blissfully unaware of sustainability shortcomings, since their elected leaders (whether legislative and/or executive) would handle all the necessary actions. If a high degree of competency would describe all the right hand levels, then scientists/academics would issue pertinent research on sustainability, which would lead to accurate laws, which would finally lead to exemplary actions on sustainability. Unfortunately, or fortunately for those favoring more personal freedom, humans are prone to mistakes, and also have many innate shortcomings, including intellectual ones. Therefore, civil society acts to mitigate what it considers as 1. Incorrect research (although these cases are rare); 2. Unjust, or otherwise incorrect laws and executive actions. In a similar manner, Parliaments and Governments need to consider community preferences, when examining scientific research and deliberating on sustainability actions.

The social level is essentially an aggregate of individual preferences, making up community preferences. But, since individual preferences are, generally speaking, very short-lived, there follows that community preferences are highly susceptible to change. Let us take a visual depiction:

Figure 2 – Biological and social time compared to ecological time



Source: own reasoning

In the previous graphic, we have chosen to depict a sustainability action focusing on environmental issues (*i.e.* ecosystem health). From the bottom up, we have the following situation: our individual preferences can be expected to last anywhere from a few hours to a few decades; our average life expectancy is around 70 years, during which we will undergo around 3 generation changes. In recent years, these generation changes have brought about significant changes in the way individuals perceive the society, their role in society and the intricacies of life, in general. In this respect, community preferences are subject to change by the intrinsic short time span of individual preferences, but also by the effects of changes in generation, which can significantly alter our perception of what society needs. So, up to this point, we conclude that individual preferences are generally established on a short-time scale and that community preferences, based on these individual preferences, are, at best, a medium time scale component.

The last component of our visual depiction is related to the life-expectancy of an ecosystem. This relates to a vastly broader time-scale, numbering hundreds of thousands of years, possibly even more. Therefore, if we would need to act on the environment, in order to bring about sustainability, one would have to cope with the intrinsic time delays in the response from an ecosystem. Take, for example, chlorofluorocarbons (CFCs), which destroy the ozone layer. Some of these substances can have an atmospheric lifetime of 100 years. Therefore, even if we stop emissions of a particular chemical now, at present time, a positive response from the atmosphere could come in as much as a century. Living components of ecosystems also display a time lag in responding to our measures on sustainability. This complicates matters for introducing sustainability measures due to the fact that our policies are based on scientific knowledge **and** the acquiescence of the community via it's

preferences, while ecological components are sometimes slow and very slow to react to our initiatives (when viewed on a human biological time-scale).

And, in this time delay, our societies are required to persevere in their measures, even when faced with seemingly few results, even over the time-span of generations. It is the opinion of the author that such time discrepancies are the root of many of the academic debates on the relevance and impact of current ecological issues. These complicated issues are the basis for questions asked on the meaning of sustainability. Our short-lived and flexible individual and community preferences are a mismatch for the ecological time-scale.

2. How and where to invest our resources?

Besides the problem of our shifting preferences, one needs to consider the resources we have for bringing about sustainability. Since every such policy implies a cost, whether an effective or an opportunity cost, one needs to set priorities between economics/social/environmental policies. These priorities are set by a mix of what needs to be done, as asserted by scientific research, and what is perceived to be socially meaningful. Given the fact that we have already discussed the implications of the latter part, we can also now look into what our scientific research yields in terms of policy recommendations.

Take the following example:

Assume all sustainability actions are related to the three current pillars of sustainability: economical/social/environmental. A policy maker would then have to choose between three options (we assume only one for each category):

- implementing a strategy A on economic sustainability;
- implementing a strategy B on ecologic sustainability;
- implementing a strategy C on social sustainability.

Given our limited resources, we should never assume that all options are viable, simultaneously*. Another strong reason to assume that optimizing all the sustainability pillars is not feasible is that, most of the time, implementing sustainability strategies on any pillar negatively affects the others. For example: governments regularly establish strategies that promote growth. However, their effect on lessening social exclusion of minorities is doubtful. So, although not a

*This implies that any sustainability policy is a policy of constraint and **not** of maximization, since maximizing any sustainability pillar implicitly takes away resources from the other two pillars. A possible reason for resource exhaustion could be entropy transformation (Georgescu-Roegen 1971, 1972, 1975, 1986)

universal trend, there is cause to believe that without proper measures, not all communities are basking in the light brought about by economic growth. Also, there is a body of literature which suggests that economic growth, at least in the way it was understood in the last century, has negatively impacted on our environment (*e.g.* Daly 2005). In a similar way, implementing environmental policies can lead to social disruptions, for example in the case of establishing wildlife sanctuaries and displacing homes and traditions, as well as negatively impacting on economic indices.

So, in light of these conditions, one must assume that our policy makers must very carefully weight in the effects of each strategy. In its own right this is a complicated matter, since all the related systems are very complex. The social, the economic and the ecologic systems are all very complex, given in part by the sheer size and number of their components but also by the web of relations established between them.

Therefore, our policy maker is faced with a daunting task: he has to make a decision, by virtue of his occupation, but he has neither a full knowledge of how his actions will change reality, nor can he play on the safe side, and pursue all avenues, by investing in all sustainability policies. This means that, in reality, our decision makers have to rely on a kind of portfolio investment in sustainability policies, never pursuing one end to the maximum extent, but seeking to balance our limited resources and our limited knowledge, in an attempt to alleviate the sustainability problems we are facing. While this adaptation would not necessarily be a problem, the conditions we are facing at current times, especially environmental, seem to call for urgent measures.

3. What the past can tell us on sustainability matters?

Confronted with constant new and increasingly complex problems, one of the edges humankind has had in this battle was to research the past in order to identify similar problems and approximate answers for new issues. As a passionate reader of history, I am wholeheartedly aware of the advantages of knowing your history. However, we should never assume that: 1. New problems can only be solved by approximation to old issues, since the former can, by their very nature, carry particular characteristics which significantly distinguish them from any previous experiences. In this respect, looking into the past for solutions can actually prove to be a very costly and futile exercise; 2. History is not linear. Although there is a common saying, that history repeats itself, one should never assume that this trend is sufficiently constant, both in appearance and structure, as to justify always looking into our past for solutions to current problems.

Take for example the following case, which technology enthusiasts (*e.g.* Nordhaus 1973,

Beckerman 1972) and pessimists (e.g. Lecomber 1975) alike will surely recognize as one of the key philosophical debates on sustainability:

Let there be a society X, which, at our time of analysis, has already spent 500 years existing, going through the regular trials and tribulations of life. During this time, scientific progress has always provided adequate solutions for the problems that have arisen. And let us assume that at current time, our society encounters severe environmental problems. Given the astonishing success that scientific progress has had on dealing with societal problems, it is reasonable to assume that this new problem can be efficiently tackled via scientific progress. While there is no proof to dismiss this claim, there is neither any proof to admit it. The simple fact that scientific progress has so far worked for us, does not mean that it will continue to do so in the future. Science has plenty of examples of research that has, in the end, led to no apparent increase in the welfare of the society*. Should our sustainability problems prove to be urgent, such scientific blunders could prove to be disastrous.

So the discussion on scientific progress essentially boils down to two issues: the degree to which it can accommodate solutions for any problem that humankind faces, and the degree to which scientists can provide appropriate solutions for our problems. The latter situation is contingent on the first statement being true, since, if scientific progress cannot solve some problems, no amount of effort on the part of scientists can lead to worthwhile solutions.

At this point, a keen critic might point out that, if scientific progress is somehow ontologically incompatible with our problems, then humankind is *de facto* condemned to unsustainability and eventual extinction. This statement is not, however, true, since other measures might prove successful. For example, in our current environmental problems, one solution often postulated is reducing the scale of the human economy (Daly 1996). This option is one that does not require any scientific progress, and could yield results in alleviating the environmental problems that we are facing. Thus, not all our sustainability problems must have a solution residing in or contingent on, scientific progress.

The predominant view in our time, though, seems to be that scientific progress is a *sine qua non* condition for bringing about sustainability. This assumption is based on slim premises, and it is, I think, a classic example of the gambler's fallacy. In this respect, technology and science optimists assert that, since our problems so far have been solved or, at any rate, ameliorated via scientific progress, then our future will be sustainable, because scientific progress will solve our problems. But there is no correlation between past problems and future problems, since future problems, by their

*Take, for example, the phlogiston theory in Physics. While I do agree that science is, essentially, a trial and error process, and, to this extent, that all the scientific corpus is valuable, in that it promotes, in a brick by brick manner, further scientific conquests, the society in large could very well be spared of these scientific *faux pas*.

very nature have new characteristics which distinguish them from the old problems. Therefore, any correlation between past problems and scientific progress does not carry when confronted with future problems.

The paragraphs under the current heading should not, however, be interpreted as a critique of the usefulness of science. It is merely asserted that, since we can neither confirm, nor infirm the role of scientific progress as a universal cure for our sustainability problems, then we should be more cautious when prescribing it and endowing it with our full trust. As with any tool devised by humankind, there are limits to its possibilities, and one should not overstate its potential, since that implicitly means we are understating the relevance of alternative solutions. And, when considering sustainability policies, turning a blind eye to other options can prove to be a significant mistake.

Conclusions

For the length of this article, we have asked a series of questions, which, we believe, are both inadequately answered and essential to the issue of sustainable development. In order to avoid redundancy, we will only restate the implications of these questions. First of all, any strategy geared towards ensuring sustainable development for society must work with clear, measurable and attainable objectives. In this respect, either introducing loosely defined concepts or setting utopic objectives, like utility maximization (which also includes the unquantifiable concept of utility) can ruin the premises for the process of sustainability.

In essence, every policy on sustainability is contingent on what we perceive to be necessary, the implication being that, if individual and community preferences are included in the process, then one must account for a very flexible development program, as these preferences are short to medium-term lived. Given the fact that feedback from the environment can appear only after decades of efforts, this can be a potential caveat.

Lastly, we should avoid casual assumptions like a linear history, when deciding our policies. In this respect, we should be cautious about the amount of reliance we have on technological progress, a process inherently fraught with uncertainty. Although any analysis of our recent or not so recent history will certainly conclude that new tools fashioned through scientific and technological progress have solved some of our problems, while nonetheless creating others, the merits of such processes should not be overestimated, more-so when considering present sustainability problems. One can certainly find alternatives, an obvious one being the reduction of the human scale of activity.

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THE ACCURACY OF GENERAL GOVERNMENT BALANCE FORECASTS IN ROMANIA

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Abstract: *Economic forecasts are an essential building block for a budgetary anticipation in order to determine the budgetary objectives and to sustain the tax and expenditure plans. In Romania the surveillance process is ensured by the use of budget programs. The aim of this paper is to improve the budgetary planning by recommending the use of the forecasted general budget balance provided by the institution with the highest accuracy during the crisis (2008-2013). More types of projections were analyzed during the recent economic crisis and the IMF forecasts for this indicator outperformed those provided by Dobrescu model and the European Union. Therefore, the recommendation is related to the use of IMF predictions in establishing the next budgetary plan for 2014 and 2015. Moreover, this research also brings improvements in the methodological framework, by proposing some aggregated accuracy indicators (S1, S2, S3 and S measures) for solving the problem of contradictory results of different accuracy indicators.*

Keywords: general government balance, budget deficit, forecasts, accuracy

JEL Classification: C51, C53

Introduction

The budget plans are an essential tool of modern budgeting, since the current budget is analyzed into the medium-term perspective. These budget plans in the European Union countries have another important role. The surveillance process is ensured by the use of budget programs. As an EU member, Romania has to achieve the stability programs or convergence. The programs are evaluated by the European Commission and ECOFIN Council to check for budgetary imbalances that might affect the fiscal sustainability.

During the recent economic crisis fiscal consolidation policies have been implemented in Romania and the entire European Union in order to achieve the planned general government balance or to recovery the decrease in economic growth. One of the causes for this failure is represented by the unrealistic planned budget deficit. Actually, the latest researchers like that of Novy and Taylor (2014, p. 5) showed that the low macroeconomic forecasts accuracy is the real cause for the actual world economic crisis. In this case the planned budget deficit is smaller than the one that would be registered. The policies in many countries of the European Union, including Romania, tended to diminish of budget imbalances following unrealistic targets, fact that affected the demand.

The failure of the Stability and Growth Pact in creating an environment of fiscal prudence during the business cycle, new commitments were taken into account in the Treat of Stability,

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Coordination and Governance from March 2012. This Treaty imposes to Romania a national mechanism to adjust the budget deficit, but it does not suppose a specific policy. From our point of view, the fiscal and budget objectives from this Treaty will be achieved if the forecasts accuracy is improved. The aim of assessing the predictions accuracy is to improve the decisional process and to implement the best government policy by taking into account the anticipated evolution of the macroeconomic indicators.

Trying to diminish the budget deficit, this study proposes a solution to the budget and fiscal problems by taking into account the forecasts of general budget balance provided by different experts. The predictions during the economic crisis are made by European Commission, International Monetary Fund and Center of macro-modeling conducted by Academician Emilian Dobrescu that uses the famous Dobrescu macro-model for the Romanian economy. After this brief introduction, the article presents some solutions from literature to the problem of fiscal planning improvement. Moreover, the general budget balance forecasting for Romania during the crisis (2008-2013) is described. A theoretical part presents the main methods for assessing the predictions accuracy. A new section is dedicated to the assessment of general budget balance forecasts made by national and international forecasters for Romania. The last section concludes, giving recommendations for improving the budget deficit planning.

1. Forecasting budgetary indicators

Economic forecasts are an essential building block for a budgetary anticipation. They are designed to determine the budgetary objectives and to sustain the tax and expenditure plans. Therefore, an *ex-post* evaluation of fiscal policy will reflect the differences between planned and actual economic growth. For example, if the government constructs the national budget upon an optimistic future growth, it will forecast higher structural revenues and it will budget higher discretionary expenditure than it would in the case of a cautious evaluation. In *ex-post* terms, lower than anticipated growth and shortfall of revenues, will have the same effect as an expansionary fiscal policy, because the discretionary expenditures are in general slowly adjusted.

In the literature some solutions were proposed to improve the forecasting of budget deficit, some of the approaching being oriented to the evaluation of predictions accuracy.

A historical evaluation for previous budget forecasts of Congressional Budget Office (CBO) was made and inaccurate predictions were obtained because of the incorrect technical and economic assumptions (Penner, 2002, p. 3). The forecast errors increases extremely fast if the horizon broadens.

The solution proposed by the author is related to the de-emphasizing of the forecasts for horizon larger than 5 years and to avoid of following strictly a desired target.

Buckle, Kim and Tam (2002, p. 156) proposed a structural VAR model to measure the impact of budget balance on four types of shocks in New Zealand: nominal disturbances, supply, fiscal disturbances and shocks in real private demand. Stochastic simulations are achieved to evaluate the cash budget balance level to have an actual budget balance for a certain forecast horizon.

Strauch, Hallerberg and von Hagen (2004, p. 27) assessed the budget and GDP growth rate forecasts in stability programs and convergence during 1991-2002. The fiscal projections used an accounting framework and are characterized by acceptable biases. There was a pro-cyclical fiscal stance, after 1998 the fiscal forecasts being quite restrictive because of the electoral cycles.

Jonung and Larch (2006, p. 492) showed that the official predictions of GDP growth are essential in the evaluation of budget balances, proving that for euro area the neglected biased predictions had an important impact on high deficits. The bias is explained by political measures and the authors' solution is the use of the budget deficit projections made by an institution that is independent by the Ministry of Finance.

Fiscal forecasting and evaluation are based on government accountability in using public resources. Lately, the budgetary surveillance in EU from Stability and Growth Pact showed a real interest in budgetary predictions (Leal *at al.*, 2008, p. 348). The forecasts might be affected by political and strategic influences, the authors analyzing in detail the fiscal forecasting and its implication in improving the financial sustainability.

Von Hagen (2010, p. 488) explained that the fiscal background in EMU countries is based on fiscal medium-run planning of the EU governments. The author assessed the gaps between the planned indicators (general government balance, spending, revenues, output growth) in the context of Stability and Convergence programs and the registered values. The factors that determined deviations for the planned values of the variables since 1999 are: restrictive fiscal rules and type of financial governance, which are institutional determinants.

The budget deficit in Romania before crisis, in 2007, was 2.5% of GDP, with a slow increase compared to 2006. The social transfers and public wages were higher than the planning, but this situation was compensated by the well performing revenues. The increases in pensions and the second pension pillar from 2008 in the context of economic crisis determined a higher deficit, much more than expected. Even if the public expenditure were well controlled, restrictive fiscal policy was imposed because of the macroeconomic vulnerabilities. Many factors have contributed to the increase of the budget deficit in Romania during 2008-2011: public salary slippages, dismal track record regarding the execution and planning of the budget, the negative impact of reforms on the social

contribution, political cycle characterized by elections during 2008-2009. The convergence program for Romania imposed the decrease of the general government budget deficit that expanded too much in the context of economic contraction from 2009. The low values of nominal GDP and the arrears' payment in health and other areas determined a significant higher deficit compared to the Government target for 2009 of 7.8% of GDP. Therefore, The Parliament has adopted in January 2010 a budget, imposing a set of measures to diminish the public expenditure to 2%. For 2010 the Government commitment established a target of 6.4% of GDP for budget deficit following the objectives of program of fiscal assistance. Some restrictive measures were planned then for expenditure side: freeze in public salaries, pensions and expenditures of services and goods. The excise taxes were grown and the budget took into account the reimbursement of tax arrears. However, even if these measures were proposed for 2010, the Government considered that these are not enough to achieve the desired target, because of the high deficit from 2009, low increase of GDP, shortfall of revenues, expenditure overruns. The policies of fiscal consolidation continued in 2011. However, for 2011 a decline in government deficit was planned in the context of faster real GDP increase. The Government projection has dropped from 8% of GDP in 2010 to 7.4% of GDP in 2011. Additional consolidation measures were required for 2012 to correct the high deficit. It was reduced from 3% of GDP in 2012 to 2.3% in 2013. The process of consolidation was based on expenditure part with planned decreases in expenditures. A slow decrease in deficit is forecasted for 2014 in the context of pensions' indexation, an insignificant increase in public sector wages, resources provided by EU funds. The predictions for 2014 also consider the inflation indexation of excise duties, a slow increase in social security contributions, excise-rate for energy goods, a larger basis for property tax. The main risks of budgetary forecasts are related to the tax collection and to the expenditure control in the context of elections from 2014.

2. The evaluation of forecasts accuracy

There are different methods used in literature to assess the forecasts accuracy. In practice, there are many cases when some indicators suggest the superiority of certain forecasts while other ones indicate that other predictions are more accurate. Therefore, it is proposed a new methodology to solve this contradiction given by the results of accuracy assessment. The method is based on different types of accuracy measures: statistics based on size errors, coefficients for comparisons and directional accuracy measures. These types of indicators were also used by (Melander, Sismanidis and Grenouilleau, 2007, p. 40), but without any aggregation.

The prediction error at time t is the simplest indicator based on the comparison of the registered value with the forecasted one and it is denoted by e_t . There are two ways of computing the forecast error if \hat{y}_t is the prediction at time t : $e_t = y_t - \hat{y}_t$ or $e_t = \hat{y}_t - y_t$. Seven out of eleven members from International Institute of Forecasters recommended in a survey the use of the first variant ($e_t = y_t - \hat{y}_t$). This is the most utilized version in literature and it will also be used in this study.

The following summary statistics have been used: root mean squared error, mean squared error, mean error, mean absolute error, mean absolute percentage error. The aggregate statistic for comparisons is based on U1 Theil's statistic, mean relative absolute error, relative RMSE and mean absolute scaled error and they are presented in *Table 2*. $RMSE_b$ is the RMSE for the benchmark. e_t^* is the benchmark error. In our case the benchmark is represented by the naïve projection. If the horizon length is h and the length of actual data series is n , the indicators are computed as in the *Table 1*:

Table 1- Measures of absolute and relative forecasts accuracy

Summary statistics for forecasts accuracy	Indicator	Formula
	Mean error- ME	$ME = \frac{1}{h} \sum_{t=n+1}^{n+h} (y_t - \hat{y}_t)$
	Mean absolute error- MAE	$ME = \frac{1}{h} \sum_{t=n+1}^{n+h} y_t - \hat{y}_t $
	Root mean squared error- RMSE	$RMSE = \sqrt{\frac{1}{h} \sum_{t=n+1}^{n+h} (y_t - \hat{y}_t)^2}$
	Mean squared error- MSE	$MSE = \frac{1}{h} \sum_{t=n+1}^{n+h} (y_t - \hat{y}_t)^2$
	Mean absolute percentage error- MAPE	$MAPE = 100 \cdot \frac{1}{h} \sum_{t=n+1}^{n+h} \left \frac{y_t - \hat{y}_t}{y_t} \right $
Statistics for comparing the forecasts accuracy	U1 Theil's statistic	$U_1 = \frac{\sqrt{\sum_{t=n+1}^{n+h} (y_t - \hat{y}_t)^2}}{\sqrt{y_t^2} + \sqrt{\hat{y}_t^2}}$
	Mean relative absolute error- MRAE	$MRAE = average\left(\left \frac{e_t}{e_t^*}\right \right)$
	Relative Root mean squared error- RRMSE	$RRMSE = \frac{RMSE}{RMSE_b}$

	Mean absolute scaled error- MASE	$MASE = average\left(\frac{e_t}{\frac{1}{n-1} \sum_{t=n+1}^{n+h} y_t - y_{t-1} }\right)$
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Source: (Hyndman and Koehler, 2006, p. 18-32)

If ME takes a positive value on the mentioned horizon with the proposed definition of the forecast error, the predictions are underestimated. For negative value of ME the forecasts are overestimated. For optimal predictions ME is zero, but this value is also met when the errors offset each other perfectly. RMSE is equal or larger than MAE. A higher difference between these two indicators implies a higher errors variance. The errors have the same magnitude if RMSE equals MAE. The minimum value of those measures is 0, but there is not a superior limit for them. A null value for the MAPE expressed as percentage shows a perfect forecast. If MAPE is smaller than 100% the prediction is better than the naïve one. MAPE has no superior limit.

The percentage of sign correct forecasts (PSC) shows how many percent of time is sign of prediction forecasted correctly. Percentage of directional accuracy correct forecasts (PDA) shows if the expert correctly anticipates the increase or decrease of the variable. The formulae for the two indicators are presented in *Table 3*. It measures the ability to correctly predict the turning points. PDA and PSC are located between 0% and 100%. According to Melander *et al.* (2007) the success rate of the indicators should be greater than 50%.

Table 2 - Measures for directional and sign accuracy

Indicator	Formula	Conditions
Percentage of sign correct forecasts- PSC	$PSC = \frac{100}{h} \sum_{t=n+1}^{n+h} z_t$	$z_t = 1, y_t \cdot \hat{y}_t > 0$ $z_t = 0, otherwise$
Percentage of directional accuracy correct forecasts- PDA	$PDA = \frac{100}{h} \sum_{t=n+1}^{n+h} z_t$	$z_t = 1, (y_t - y_{t-1})(\hat{y}_t - y_{t-1}) > 0$ $z_t = 0, otherwise$

Source: (Melander, Sismanidis and Grenouilleau, 2007, p. 44)

The methodology by us consists in the following steps:

- The computation of sums of summary statistics after the division to each standard deviation (S1);
- The computation of sum of relative accuracy measures (S2);
- The computation of sum of percentage for directional and sign accuracy (S3).

For the first indicator S1, the MSE has been excluded, because it has the same significance as RMSE. S1 and S2 should be as lower as possible, while S3 should be as high as possible. After these measures assessment, the best forecaster is chosen.

$$S_1 = \frac{|ME_t|}{SD_t^{ME_t}} + \frac{MAE_t}{SD_t^{MAE_t}} + \frac{RMSE_t}{SD_t^{RMSE_t}} + MAPE_t \quad (1)$$

$$S_2 = U_1 + MRAE + RRMSE + MASE \quad (2)$$

$$S_3 = PSC_t + PDA_t \quad (3)$$

These aggregated indicators also might show contradictory results. Therefore, another aggregated measure is constructed (S indicator) that considers the values of S1, S2 and S3 and a single decision is made using it.

$$S = \left| \frac{S_1 + S_2}{S_3} \right| \quad (4)$$

The forecasts with the lowest S value are the most accurate.

Let us consider the actual values of a variable $\{y_t\}, t = 1, 2, \dots, T$ and two predictions for it $\{\hat{y}_{t1}\}, t = 1, 2, \dots, T$ and $\{\hat{y}_{t2}\}, t = 1, 2, \dots, T$. The prediction errors are computed as: $e_{it} = \hat{y}_{it} - y_t, i=1, 2$. The loss function in this case is calculated as:

$$g(y_t, \hat{y}_{it}) = g(\hat{y}_{it} - y_t) = g(e_{it}) \quad (5)$$

In most cases this function is a square-error loss or an absolute error loss function.

Two predictions being given, the loss differential is:

$$d_t = g(e_{1t}) - g(e_{2t}) \quad (6)$$

The two predictions have the same degree of accuracy if the expected value of loss differential is 0.

For Diebold-Mariano (DM) test, the null assumption of equal accuracy checks if the expected value of differential loss is zero: $E(d_t) = 0$. The covariance stationary been given, the distribution of differential average follows a normal distribution. The DM statistic, according to (Diebold and Mariano, 2002, p. 38), under null hypothesis is:

$$S_1 = \frac{\bar{d}}{\sqrt{\hat{V}(\bar{d})}} \rightarrow N(0,1)$$
$$\bar{d} = \frac{\sum_{t=1}^n d_t}{n} \quad (7)$$
$$\hat{V}(\bar{d}) = \frac{\hat{\gamma}_0 + 2 \sum_{k=1}^{n-1} \hat{\gamma}_k}{n}$$
$$\hat{\gamma}_k = \frac{\sum_{t=k+1}^n (d_t - \bar{d})(d_{t-k} - \bar{d})}{n}$$

Instead of estimating the variance we can study the prediction error auto-covariances. This test does not suppose restrictions like forecast errors with normal distribution, independent and contemporaneously uncorrelated predictions errors.

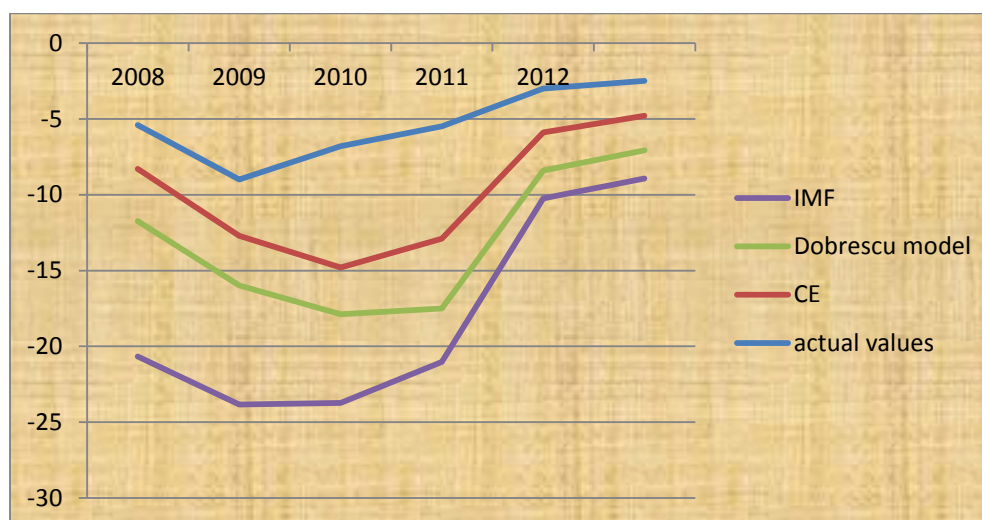
3. The assessment and improvement of forecasts accuracy for general government balance

The forecasts made during the crisis (2008-2013) for general government balance in Romania are provided by Dobrescu macro-model, European Commission and International Monetary Fund. DG ECFIN provides macro-economic predictions on behalf of European Commission. These forecasts represent the basis for different economic surveillance procedures. DG ECFIN's predictions include a large number of territories, from the overall European Union, euro zone, other major economies outside the European territory to each country from EU and candidates to this union. In this study, the spring and winter versions of the forecast for Romania will be used.

The Dobrescu macro-model for the Romanian economy is used mainly for making forecasts regarding the future evolution of the key variables of the national economy (Dobrescu, 2013, p. 3). The author has been constructed different scenarios along the time.

The source of predictions made by IMF is the World Economic Outlook (WEO) database, which is generated during the biannual exercise that begins in January and June for every year.

Figure 1 - The evolution of actual and projected general government balance during 2008-2013



Source: author's graph

According to all accuracy measures, the predictions provided by IMF are the most accurate. The negative values of ME suggest that all the predictions of the forecasters are higher in average than the registered values during the economic crisis (2008-2013). All the predictions are better than the naïve ones, MASE registering low values.

Table 3 - The accuracy evaluation of the forecasts for general government balance (horizon: 2008-2013)

Accuracy measure	CE	Dobrescu model	IMF	Forecasts' average
Mean error- ME	-0.8333	-2.1667	-0.3942	-1.1314
Mean absolute error- MAE	2.2000	2.5560	1.7546	1.2859
Root mean squared error- RMSE	2.5639	2.9246	1.8437	1.7530
Mean squared error- MSE	6.5733	8.5530	3.3994	3.0729
Mean absolute percentage error- MAPE	17.9846	20.9074	20.5721	11.4639
UI Theil's statistic	0.2357	0.3218	0.1604	0.1708
Mean relative absolute error- MRAE	0.7969	0.8801	0.8782	0.4934
Relative Root mean squared error- RRMSE	1.0708	1.2214	0.7700	0.7321
Mean absolute scaled error-MASE	0.4420	0.5042	0.3178	0.3022
Percentage of sign correct forecasts- PSC	100%	100%	100%	100%

Percentage of directional accuracy correct forecasts-PDA	66.67%	83.33%	100%	83.33%
S1	4.3812	14.6547	2.3735	3.3563
S2	2.5453	2.9275	2.1264	1.6985
S3	166.67%	183.33%	200%	183.33%
S	4.155817	9.590465	2.24995	2.757214

Source: own computations

The proposed aggregated accuracy indicators S1, S2, S3 and S confirmed the superiority of IMF forecasts. However, the combined forecasts based on the average of all types of predictions are superior only in terms of relative and directional accuracy. However, this method of improving the forecasts accuracy proved to be good, even if the mean error is quite large.

The use of accuracy measures is not enough if an accuracy test is not used. The Diebold-Mariano test is applied in order to check the differences in accuracy between the institutions' forecasts. The criterion of selection for DM test is represented by the value of MSE. The kernel is uniform and the maximum lag is chosen according to Schwert criterion. This test is applied to check the differences in size errors and the results are displayed in *Table 4*.

Table 4 - The results of DM test

Forecasts to compare belong to:	DM statistic	Decision- better forecasts provided by:
EC and Dobrescu model	$S(1) = -1.33e+08$ p-value = 0.0000	EC
EC and IMF	$S(1) = 8.99e+07$ p-value = 0.0000	IMF
Dobrescu model and IMF	$S(1) = 2.08e+08$ p-value = 0.0000	IMF

Source: author's computations

The results of DM test put into evidence the superiority of IMF predictions during the economic crisis. The two approaches from literature based on accuracy indicators and based on an accuracy test conduct us to the same conclusion. The hierarchy of institutions according to forecasts accuracy for general budget balance is: IMF, EC and Dobrescu model. The results are consistent with the main findings from literature that imputed to Dobrescu model the fail to anticipate the economic crisis and its' continue.

Conclusions and recommendations

The results of this research conducted us to a very important conclusion for improving the planned general budget balance in Romania for achieving the financial stability or convergence. More types of projections were analyzed during the recent economic crisis and the IMF forecasts for this indicator outperformed those provided by Dobrescu model and the European Union. Therefore, the recommendation is related to the use of IMF predictions in establishing the next budgetary plan for 2014 and 2015. According to the recommendations from literature, the Government should not be too restrictive in terms of targeted budgetary deficit and the use of IMF projections should not be avoided because the forecasts do not correspond to the desired targets.

The novelty of the proposed global accuracy measure (S indicator) is brought by the inclusion of different aspects of forecasts accuracy. In decision making all the dimensions of the accuracy should be taken into account. For example, for policy decisions the neglect of directional accuracy could have large negative consequences. The general public might be interested only in the error size, but for processes where the sign of the error and detail aspects of accuracy evaluation are relevant the use of a global accuracy measure is essential. One type of policy is elaborated when we expect a decrease in inflation and another one when an increase is anticipated.

All in all, this research brings improvement not only in the empirical domain of budgetary planning in Romania, but also proposed some aggregated indicators for assessing forecasts accuracy that represents an improvement on the methodology related to the predictions accuracy evaluation.

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A COMPARATIVE ANALYSIS OF THE EU MEMBER STATES REGARDING THEIR INTERDEPENDENCE WITH RUSSIA

Loredana Maria SIMIONOV*

Abstract: *The interdependence is definitely the most common concept used to describe the relations between the EU and Russia. Nevertheless, despite their obvious interdependence, there are still a series of debates in literature which usually arise when it comes to describing its typology and its implications, especially in the analysis at the Member States level. Moreover, given the complexity and variety of relations between the EU-27 and the Russian Federation, the present study aims to outline a comprehensive picture of the interdependence between the two actors at a regional level by conducting a comparative analysis of the European Union Member States according to their interdependence with Russia, considering energy as the main aspect of their relations. In this sense, the scientific approach will focus on a comparative analysis of the mutual energy dependencies between the member states and Russia, in order to characterize the interdependence typologies, as well as to identify the distribution of cost and advantages.*

Key Words: Interdependence, vulnerability, energy, advantage, gas

JEL Classification: N44, N74, R58, F59

Introduction

The complex interdependent relation between Russia and the European Union has been a highly debated topic over the last decade due to its high relevance for the future and security of the entire Eurasian region. The difficulty of analysing the mutual dependence arises mainly from the wide spectre of relations that exist within EU and Russia, both on bilateral bases, as well as regional. Presently, the bilateral relations between EU's member states and Russia prevail on the regional one, as Europe's economic and political fragmentation is highlighted when dealing with Russia. The current study focuses on analysing the differences and discrepancies of energetic dependence among the EU member states, in regards to Russia, as well as Russia's dependencies on EU's member states in order to shed some light on the overall EU-Russia economic interdependence.

The first section of the paper exposes the general overview of the economic relations between Russia and the European Union, both politically and economically. Within the second section, there a comparative analysis will be conducted using Barbieri and Russet methods of quantifying interdependence, although their general method will be applied to the energy sphere, as well as to all EU's member states and Russia.

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1. General overview of the economic relations between Russia and the European Union

The fact that the EU and Russia are interdependent to some extent has been well established in the literature. However, the experts' opinions are not uniform and often the interdependence (seen as mutual dependence) is treated superficially, with more emphasis on the European Union's dependence on Russia, not vice versa. There are far fewer studies that deal with Russia's dependence on Europe and even so, those studies are accompanied by a wave of pessimism. This trend in the literature is not random and is based on a number of factors, such as: the fears of Europeans on energy security due to interruption of gas supplies to Ukraine in January 2006 and January 2009 by Russia; the concern of European states regarding external energy dependence, namely energy dependency on Russia, as a main supplier; the strategy of the quasi-public company Gazprom and last but not least all the tensions which rise from the frozen conflicts and political instability in the buffer zone. Consequently, the media and European politicians often advocate for an excessively bleak picture when it comes to Russia, an image often influenced by geopolitical reasons such as: the war in Georgia in 2008, the recent revolution in Ukraine or the annexation of Crimea. Unfortunately, this view sometimes interfere with objective analysis of the economic risks associated with Gazprom 's dominant position in the European gas market, and Europeans often pay little attention on the leverages it has. Russia's economy is solely dependent on energy exports.

This study aims to provide an analysis of the particularities of trade relations between EU and Russia in order assess their implications on the interdependence between them. Since in literature there are several studies which focus on Europe's dependence and vulnerability regarding energy imports from Russia, this study will mainly focus on Russia's economic dependence on its energy exports, and consequently on European customers.

1.1. Theoretical background

The concept of economic interdependence is a concept closely linked to foreign trade. In economics interdependence is defined as mutual dependence in which there are reciprocal effects of trade/business transactions between partners. Such relationships, however, do not only have economic implications but also political. The classical liberal conception states that conflicts between countries with extensive trade links create high costs associated with finding a new trading partner. In this context, bilateral trade induces the political factor to refrain from promoting an aggressive

policy or the use of force, as long as it has a high degree of economic importance (and hence political) that specific country. (Hirschman, 1945)

The interdependent relationship is not necessarily one of mutual benefit, as in the strategic interdependence of the United States and the Soviet Union in the Cold War, but interdependent relationships always entail costs, since interdependence limits the autonomy of the parties involved. The costs of interdependence involve sensitivity to outside pressures, which in certain cases take the form of vulnerability (Keohane and Nye, 1977; pp. 12–13).

It is incomplete to stick to the reciprocal effects of trade when defining and analysing the concept of economic interdependence. The main aspect to be considered is the nature of these effects, namely their main characteristic of asymmetry. An interdependent relation is perfectly symmetrical only in theory, as the mutual gains and benefits can vary greatly from one partner to the other.

Other concepts used in the analysis of this study refer to proximity and complementarity. Both concepts are closely related to interdependence: whereas proximity causes the existence of interdependence, which in turn induces some complementarity in relations between states.

The geography of international relations and especially in the study of international conflict, the proximity factor is analysed from different perspectives. For example, the French philosopher Emmanuel Levinas in his essay *Peace and Proximity* (1984), considers that ethics in foreign policy is limited to one's neighbours, which defines the proximity as the main factor to suspend the threat of conflict (Denboer, 2010, p.67).

Harvey Starr believes that states (or any other units) which are close to each other, interact, and thus communicate more effectively. Simply, they are able to interact more with each other, which Starr defined as "interaction opportunity". Also the proximity makes states situated in the vicinity of another state to be more important, relevant and the highest degree of proximity is the border between the states.

At the same time, in some cases, proximity can also be a main factor in accelerating the emergence of disputes or conflicts, often due to territorial disputes or cultural differences. Therefore, intense interaction between states can have positive effects, but also negative (Starr, 2005, p.389 - 396).

Regarding the concept of complementarity, it is an implication, a natural effect of the relationship of interdependence, whereas interdependent states depend on each other and thus complement each other. Complementarity is directly proportional to the interdependence so that, as the interdependence is stronger, the greater is the degree of complementarity (Vecchi, 2011, p.7 -12).

1.2. Geopolitical outlines

Being the largest geopolitical entities in Europe, Russia and the EU are interdependent in many areas, being major partners in a number of key areas such as trade, energy and external aspects of security. In this context and with such a starting point, we could say that the European Union and the Russian Federation are strongly linked on political, cultural and economic backgrounds. A glance at the map of the world is enough to understand that Russia and the EU share security interests and an important common neighbourhood and consequently have only one choice in the current international, multipolar and globalized environment - to further develop their partnership. Such an approach on the relations between the EU and Russia is based on two fundamental arguments: the "proximity" and "complementary" of their relation (Starr, 2005, 389 -396).

The argument of "proximity" refers to a strong strategic component which can be characterized not only by shared economic interests but also by their common objective of strengthening cooperation in various international areas. Geographically, Russia is and will remain the most powerful neighbour of the European Union and will continue to play a leading role in Euro-Atlantic and Eurasian space. From this perspective, the European Union and Russia are "condemned" to co-exist in each other's vicinity and moreover, in some circumstances, one inside the other, as the Kaliningrad region is located within the EU.

Regarding the argument of "complementarity", Vecchi describes EU-Russia relations on the principle of complementarity between needs and resources (Vecchi, 2011, p.9); from this perspective, Russia and the EU are complementary in almost all levels. On the one hand, the Russian Federation is the main energy supplier for Europe, and one of the leading suppliers for most of the raw materials used by the Union's industry. On the other hand, the EU is the main investor in the Russian economy, and a major supplier of know-how and technology. Thus, at first glance, we can say that the EU and Russia are too close (geographically, culturally and economically) not to realise that closer cooperation can provide an opportunity to increase welfare and security in both spaces (Bahgat, 2006, 964).

The asymmetric interdependence between EU Member States and Russia is based on a number of features which vary from one state to another. Firstly, the main factor that induces a clear advantage to Russia in its energy relations with some EU countries (mainly Eastern states) relates primarily to the difficulty or impossibility of substituting oil and gas, at least on short and medium term. The difficulty of substituting energy products is valid for all oil and gas importing countries such as the U.S., but much more real for the energy trading partners of Russia. Former USSR deliberately tied

both its own republics and its satellite states through a network of dependence on oil and gas supplies. The key economic sectors of the countries belonging to the former Soviet bloc, such as industry, transportation or gas supply to households, were built in such a way as to depend entirely on oil and gas supplies from Russia. If oil can, to a certain extent be substituted, since it can be transported via ships or other means, while gas can only be transported through pipelines, which are very expensive and imply the existence of a high geographical proximity between the importer and the exporter. Thus, Russia's neighbours have no other energy supplier in their proximity. Such monopoly gives Russia a huge market power over its customers. Theoretically, in this context, the Russia holds the advantage within its asymmetric interdependence with EU-27 eastern countries.

However, while imports of oil and gas from Russia are essential for EU Member States, income from oil and gas exports is vital for the Russian economy. Russia's economic growth over the past decade is largely due to its energy sector, given that approximately 20% of total revenue from Russia's GDP comes from this sector (IS5, 2014).

The asymmetric interdependence of Russia and the European Union on a bilateral level (Russia-EU member state) varies from state to state. Clearly not all the states are disadvantaged in their economic relation with Russia; some Western economies hold advantages over Russia. Overall, the EU member states that benefit most are those for which the energy mix is more diversified, who have more energy suppliers than Russia and last but not least, who invest more in the Russian Federation and consequently increase its vulnerability.

On a regional level, the economic interdependence between Russia and the EU can be qualified as symmetric, as Russian economy is highly vulnerable to the investments and trade with the Union as a whole.

1.3. Economic outlines

In the economic sphere, the total value of trade in goods between Russia and the 27 EU members increased from € 52.8 billion in 1999 to nearly 307 billion in 2011, with a considerable increase in both exports and imports. (Table 1) Therefore, for Russia, the European Union became the main trading partner and at the same time, the Russian Federation, along with the U.S. and China, has become one of the major trading partners of the EU-27, excluding intra-EU trade.

Table 1 - Main indicators of EU-27 and Russia (2012)*

	UE-27	Rusia
Indicators for area and population(2012)		
Area	4.324.782 km ²	17,098,242 km ²
Population	503.824.373	142.500.482
Population growth rate	0,212%	-0,01%
Economics indicators(2012)		
Unemployment rate	10,5%	6,2%
GDP	16.584 bln USD	2.015 bln USD
GDP per capita	34.500 USD	17,700 USD
GDP growth rate	-0,2%	3,6%
Trade indicators(2011)		
Exports	2.017 bln USD	542,5 bln USD
<i>EU Exports in Russia</i>	140,36 bln EUR	
Imports	2.397 bln USD	358,1 bln USD
<i>EU Imports from Russia</i>	256.89 bln USD	
Trade Balance	-380 bln USD	184,4 bln USD
Total trade value EU-Russia	397,24 bln USD	

Source: Author's calculations based on data provided by: *CIA Worldfactbook*, at: <https://www.cia.gov/library/publications/the-world-factbook/index.html>, accessed on 14.12.2013

Given this trade dynamic between Russia and the EU, expressed in Table 1, it is easy to understand why, within its foreign policies, the EU was a strong supporter of Russia's accession to the WTO, from the beginning of the negotiation process all the way to the actual accession of August 22nd, 2012. The EU's support throughout the entire process of Russia's WTO accession represented an important goal to achieve for the EU, in order to develop and strengthen its economic relations with the federation. In essence, the central interest of the union in Russia's WTO accession was to prevent it from adopting unilateral tariff systems as it was the case in the past. (IS2, 2013)

Also, from an external perspective, one of the major advantages of Russia's accession to the WTO, in addition to tariff reductions in general, is the predictability and legal certainty of the federation (Latek, 2012, 5), which are very important for the European Union, not only in terms of trade but also in terms of investments since, the EU is the most important foreign investor in Russia. According to the Central Bank of Russia, almost three quarters of FDI in Russia come from the EU. (National Bank of Russia, IS4, 2014)

Foreign Direct Investments (FDI) represent much more than income. FDI's are the clearest indicator of a country's willingness and ability to succeed in the global economy. (Garanina, 2009, 13) In the case of Russia, after the fall of communism, the capital flows from foreign investors have been crucial for the consolidation of economic and political reforms. (Aslund, Guriev, Kuchinus, 2010, 17) Thus, in regard to the scope of foreign direct investments, the links between Russia and the European Union are very strong, considering that at least 70% of the total FDI in Russia come from the European Union. (Appendix 1)

According to the analysis made on FDI in Russia (Appendix 1), can be noted the following:

✓The European Union is the main investor in the Russian Federation in the last decade, given that approx. 70% of FDI in Russia comes from the EU-27, except for the year 2009 which was affected by the economic crisis;

✓Russia's attractiveness as a destination for FDI's within the analysed period has increased, given that the total flow of investment, which in 2009 reached a threshold of 36.336 million USD, increased in 2011 to 55,615 million USD;

✓The main member states investing in the Russian Federation are: Cyprus (24%), the Netherlands (13%), Luxembourg (7%) and Germany (4%);

✓The newest members of the European Union, namely the states of Central and Eastern Europe invest the least, with a share of less than 1% of total foreign direct investment in Russia.

Given the intensity of trade and investments between the European Union and the Russian Federation, as well as the existence of the two arguments mentioned above, that of "proximity" and "complementarity" there can be developed two scenarios: on the one hand, a positive scenario, characterized by a "strategic partnership" between the two global players who understand the need to cooperate and work together on the international stage, or, on the other hand, a negative scenario, characterized by a "confrontational attitude" where both players try to maximize their position by "mutual attacks". However, in such a "strategic relationship" that can take the form of a "partnership" or a "rivalry" and with so many stakes at hand, "complementarity" is not a sufficient argument and does not guarantee automatic cooperation. Close cooperation between the two players in the world arena is ultimately a matter of political choice, and that choice must be rational and positive.

In order to discuss economic cooperation between the two actors it is important to analyse the EU and Russia should as part of a global economic landscape which within the last decade has proven to be unstable, affected by a number of factors, such as the public deficits challenges, induced by public and private debt as well as the exchange rate volatility. (Lorkowski, 2012, 7) In this context, both the EU and Russia must face these challenges and economic cooperation may come as a part of the solution: rather than try to cope with them individually, they should join efforts to seize advantage

of the complementary structure that characterizes their economic relations. (Kredler, Afontsev, 2010, 24) In this respect, private initiatives should be linked to responsible policies in order to support bilateral economic cooperation in bilateral trade, investment and innovation.

Thus, Russia and the EU should seize the opportunity of "interaction" that Starr speaks of. (Starr, 2005, p.389-396) Given that this interaction can have both positive and negative effects, the two actors must channel their energy in order to eliminate the negative effects and to accelerate the positive ones, possibly given by accelerating their cooperation.

From a theoretical perspective, proximity causes enhanced interaction, which in time can lead to the existence of interdependence between the involved partners. The concept of complementarity is an implication, a natural effect of the relationship of interdependence, whereas interdependent states depend on each other and thus complement each other.

In this theoretical framework, the intense interaction between the EU and Russia, due to their proximity, led to a relation of interdependence, which, in turn, leads to complementarity. In literature, the economic cooperation between Russia and the union is primarily focused on their energy relations. However, to reduce this interdependence to: Union is the buyer and Russia the supplier of energy is a simplistic approach, since, it does not take into account various factors that confer a high degree of complexity to the relations between the two actors. Therefore, to analyse and determine the nature and intensity of their interdependence is necessary to conduct a thorough analysis of trade between Russia and the European Union, the particularities of their trade as well as their implications on the economy of both regions.

2. Economic comparative analysis

In literature, there are several methods of quantifying economic interdependence between states. Nevertheless, the most complex and accurate are the methods proposed by Barbieri (1996) and O Neal and Russet (1998) (Table 2):

Table 2 - Methods of quantification of interdependence

Methods	Instruments
Barbieri (1995, 1997, 1998)	(1) $TradeShare(i) = \frac{imports(i)+exports(i)}{imports(i)+exports(i)} = \frac{Trade(i)}{Trade(i)}$
	(2) $Intensity(ij) = \sqrt{TradeShare(i) * TradeShare(j)}$
	(3) $Symmetry(ij) = 1 - TradeShare(i) - TradeShare(j) $
	(4) $Interdependence(ij) = Intensity(ij) * Symmetry(ij)$
Oneal & Russet (1997, 1999)	(1) $Dependence(i) = \frac{imports(i)+exports(i)}{GDP(i)} = \frac{Trade(i)}{GDP(i)}$
	(2) $Dependence(j) = \frac{imports(j) + exports(j)}{GDP(j)} = \frac{Trade(j)}{GDP(j)}$
	(3) $Interdependence(ij) = MIN[Dependence(i); Dependence(j)]$
	(4) $Asymmetry(ij) = MAX[Dependence(i); Dependence(j)]$
Energetic Vulnerability (Author, 2014)	(1) $Energy\ Dependence\ on\ Russia = \frac{ImpRU(gas)+ImpRU(oil)}{Total\ energz\ consumption} * 100$
	(2) $Energy\ Dependence\ on\ EU = \frac{ExpEU(gas)+ExpEU(oil)}{Total\ energy\ exports} * 100$

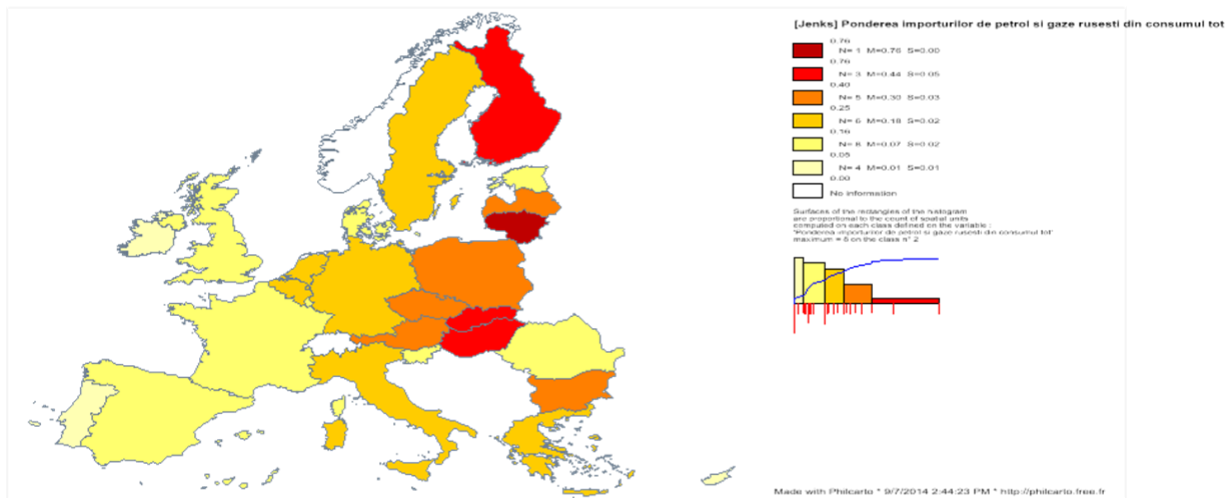
Source: Author (Barbieri, 1996, Russet & Oneal 1998)

Although the methods above are thorough and complex, they refer to interdependence only in terms of trade. Therefore, based on Russet’s method, the energetic interdependence (mutual dependence) can be measured through EU member states and Russia’s dependencies in the sphere of energy, as the table above shows.

Applying the author’s proposed method we can conclude the following:

1.The energy dependence that the EU’s member states have on Russia show that the most vulnerable states are situated in Central and Eastern Europe (CEE) (Figure 1):

Figure 1 - Energy dependence of EU member states on Russia



Source: Author’s representation (PhilCarto Software 5.7)

Therefore, the most vulnerable states are: *Lithuania, Hungary, Slovakia and Finland* (the only vulnerable member that is not a CEE country). A close look at the energy vulnerability map show quite clearly that geography matters when it comes to EU-Russia interdependence: the proximity to Russia is directly proportional to EU’s member state energy dependence

The states which depend the least on Russia when it comes to energy resources supply are Ireland, Portugal, Malta and Cyprus. While Cyprus has a privileged relation with Russia, being considered often as a Russian *Trojan Horse* in Europe (Popescu, 2009, 37) Ireland and Portugal are some of the EU members that have the lowest proximity to Russia. Within this context, according to the proximity theory, the overall interactions and relations with Russia are not intense.

Table 3 - Member States energetic dependencies on Russia

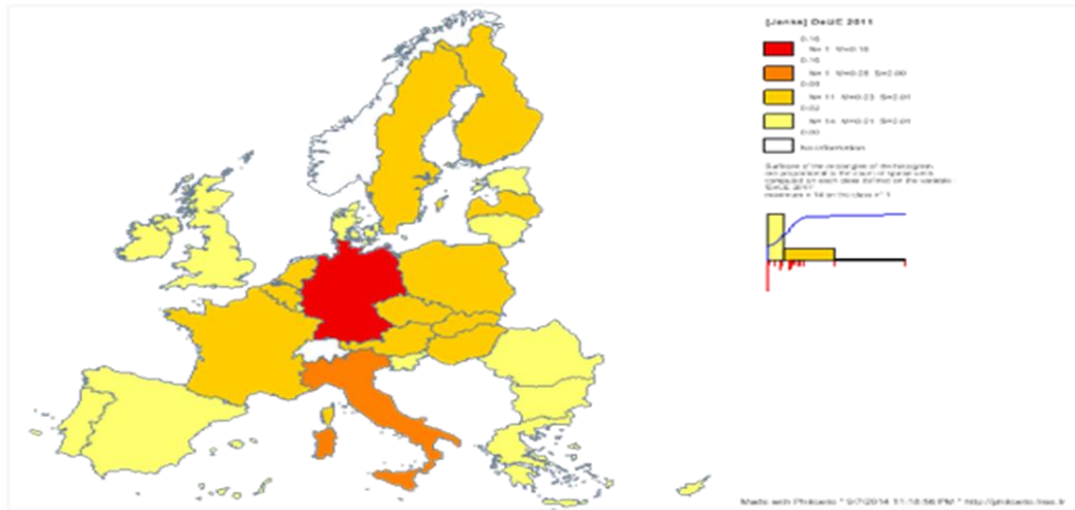
High Vulnerability (0,76)	Medium-high vulnerability (0,4-0,52)	Medium vulnerability (0,25-0,35)	Low vulnerability (0,16-0,22)	Insignificant Values (0,06-0,0)
Lithuania	Hungary, Slovakia, Finland	Czech Rep., Latvia, Poland, Bulgaria, Austria	Romania, Slovenia, Estonia, Italy, France, Netherlands, Great Britain, Spain, Denmark,, Sweeden, Belgium Greece, Germany, Louxemburg	Ireland, Portugal, Malta, Cyprus

Source: Author’s representation

2.Russia’s energetic dependence on EU Member States (Figure 2)

According to the energetic dependence index, Russia presents a high vulnerability only on two Member States, Germany and Italy, both situated in the Western part of the EU (Table 4), while it has a low vulnerability on the rest of the continent.

Figure 2 - Russia's dependence on EU member states



Source: Author's calculations and representation

Moreover, the EU members that Russia has a low to none vulnerability are either situated in the Eastern part of the EU Eastern countries (Romania, Bulgaria, Greece, Estonia and Lithuania) or they have the lowest proximity to Russia, such as Portugal, Spain, Ireland and the UK.

Table 4 - Russia's energetic dependencies on EU member states

High vulnerability (0,17)	Medium vulnerability (0,08)	Low vulnerability (0,02-0,04)	Insignificant values (or zero) (0-0,1)
Germany	Italy	Finland, Sweden, France, Belgium, Netherlands, Austria, Poland, Czech Rep., Slovakia, Hungary, Latvia	Ireland, Denmark, Great Britain, Greece, Luxembourg, Spain, Portugal, Malta, Cyprus, Slovenia, Romania, Lithuania, Estonia, Bulgaria

Source: Author's representation

Overall, Russia does not depend on EU member states when it comes to energy, presenting low to insignificant vulnerabilities for most of the states, except for Germany and Italy.

Comparing the energetic mutual dependencies of Russia and the EU member states, we can have an overall image of their interdependencies:

Table 5 - Energy interdependence between Russia and the EU member states

		High vulnerability (0,76)	Medium-high vulnerability (0,4-0,52)	Medium vulnerability (0,25-0,35)	Low vulnerability (0,16-0,22)	Insignificant values (0,06-0,0)
INTERDEPENDENCE	EU MEMBER STATES	Lithuania	Hungary, Slovakia, Finland	Bulgaria, Czech Rep., Poland, Austria	Germany, Italy, Romania, Slovenia, Estonia, France, Netherlands, Great Britain, Spain, Denmark, Sweden, Belgium, Greece, Luxembourg	Ireland, Portugal, Malta, Cyprus
	RUSSIAN FEDERATION	High Vulnerability (0,17) Germany		Medium vulnerability (0,08) Italy	Low vulnerability (0,02-0,04) Finland, Slovakia, Hungary, Austria, Poland, Czech Rep., Latvia, Sweden, France, Belgium, Netherlands	Insignificant values (0-0,1) Lithuania, Bulgaria, Ireland, Denmark, Great Britain, Greece, Luxembourg, Spain, Portugal, Malta, Cyprus, Slovenia, Romania, Estonia,

Source: Author’s representation

In the energy sphere, the relationship of interdependence between the EU and Russia can be characterised either as a weak and relatively symmetrical interdependence, whether as an asymmetrical interdependence which is mainly in favour of Russia, when it comes to the countries in Central and Eastern Europe, and in favour of the EU, when it comes to Germany and Italy, trends which emphasise the *East-West Division of EU Member States*.

Conclusions

The asymmetrical interdependence between Russia and the EU Member States underlines the East-West division of the European Union which will definitely have long-term adverse consequences. The failure of the Nabucco pipeline and the lack of diversification for gas imports in the new EU Member States will lead to more severe disparities in economic development between the members in the East and those in the West.

The East-West division will lead to a more fragmented energy market, having the EU's eastern part highly dependent on energy supplies from Russia while the Western part will be much more diversified when it comes to energy sources and suppliers, especially those related to natural gas.

Such a development could have serious consequences not only for the consolidation of a common gas market but also for the future of EU’s common energy policy, for the development of the CFSP, as well as for the strategic guidelines of the foreign policies of EU’s Member States.

Acknowledgment

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GLOBAL GOVERNANCE VS. NATIONAL SOVEREIGNTY IN A GLOBALIZED WORLD

Sabina TUCA*

Abstract: *The global economic and financial crisis of 2007 highlighted the risks, threats and enormous costs of a global economy in the absence of a global government. The aim of this paper is to emphasize the importance of global governance in a world in which states are facing the erosion of national sovereignty. The two concepts are being analyzed from various points of view, including current challenges and future scenarios. Despite the fact that states, especially major powers, are not prepared to accept some elements of global governance and the limits that they would put on their national sovereignty, recent developments seem to make global governance a key component of the international scene.*

Keywords: global governance, national sovereignty, globalization

JEL Classification: F52, F53, F69

Introduction

Global governance is a relative new concept. It is often defined in terms of what is not: it is not a world government. In one of the first studies on global governance, published in 1992, James Rosenau defines the concept as a world order where there is no central authority and capacity to implement global decisions (Rosenau, 1992, p.7). His idea of global governance is that of an existing order for managing interdependence in the absence of a state. The definition is very broad and there is no reference to who should take or implement the decisions.

More recently, Weiss and Thakur (2010) provide a more comprehensive definition of global governance. According to the two authors, global governance includes all laws, rules, policies and institutions that constitute and mediate relations between citizens, businesses, markets and states in the international arena (Weiss and Thakur, 2010, p.6).

Despite the fact that currently there is no global government as the UN General Assembly is not a world parliament and Ban Ki-moon is not the president of the world, we can affirm there is some level of government. Moreover, Weiss and Thakur argue that the desire to improve the functioning of global governance has little to do with the desire to create a world government.

On the other hand, the concept of sovereignty can be traced back to 1648, when the Treaty of Westphalia was settled and marked the end of 30 years of religious war.

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According to Cynthia Weber (1995), sovereignty means the absolute authority that a state holds over a territory and its people, as well as independence and international recognition by other sovereign states as a sovereign state (Weber, 1995, p.1).

Modern state sovereignty was at first dependent of relations between states, based on the idea that each state (in principle and not always in practice) acknowledges the autonomy of others within their own borders. Held and McGrew (2003) argue that no state, no matter how strong it is, held as much sovereign control in practice, as enshrined in legal principle.

1. Global governance vs. national sovereignty – current challenges

1.1. Global governance

Both governance and the government are composed of a system of rules and mechanisms by which authority is exercised in order to allow systems to maintain consistency and to meet the desired objectives. Governance systems are social functions or processes that can be made or applied in a variety of ways in different times and places for a variety of organizations.

The instruments of global governance take the form of treaties, customary international law, international organizations, formal and informal rules embedded etc. Formal international institutions are both globally and regionally. Examples of global institutions are the United Nations (UN), the World Trade Organization (WTO), the World Health Organization, the International Monetary Fund, the World Bank, the Organization for Economic Co-operation and Development, the North Atlantic Treaty Organization (NATO), etc. Among formal regional organizations can be included Shanghai Cooperation Organization that includes Russia, China and the former Soviet republics of Central Asia: Kazakhstan, Tajikistan, Uzbekistan and Kyrgyzstan, whose objective is to maximize the economic, diplomatic and military between Member States. In essence, these countries consider that global security should be based on the coexistence of several centres for peace, linked to centres of civilization.

Also, issues related to global governance are addressed at BRICS Summits as well. At the third BRICS Summit, which took place on 13 and 14 April 2011, with the acceptance of South Africa in the group, they addressed issues such as the need to reform the UN, the inclusion of Russia in the WTO and cooperation in the Council Security in the peaceful settlement of the conflict in Libya.

In addition to these international institutions, there are informal institutions, like the Bilderberg Club, the Club of Rome, the Trilateral Commission, G8, G20, G5. The advantage of these informal structures before intergovernmental organizations is precisely the lack of bureaucracy. Although at

first glance the lack of formality of these structures, whose decisions are not mandatory but recommended, can be considered a weakness, reality has shown that often their influence exceeds that of many formal global institutions.

On the other hand, Jagdish Bhagwati (2004) emphasizes the importance of civil society on the global governance process. Civil society, reflecting national mobilization, values, culture and political sensitivities, provides opportunities for better management of globalization in democratic societies. In this regard, non-governmental organizations (NGOs) have a major role. For example, governments, especially in poor countries, adopt legislation such as the 'polluter pays' principle, but not the means to monitor compliance. In this context, NGOs are pursuing compliance.

Also, Bhagwati (2004) draws the attention to multinational corporations, which although non-governmental organizations, they play an essential role in providing appropriate governance through what is called "corporate social responsibility".

In other words, we can say that there are multiple levels of governance, from the local level, continuing with national and regional level, global problems being managed globally. For each level of government, there are special institutions, not independent but overlapping powers and responsibilities of each. However, coordinating the efforts of various stakeholders, from local to global, governmental, intergovernmental and non-governmental proves to be a real challenge to global governance.

Global governance is shaped by a growing tension between the need to internationalize as many rules and the willingness of states to assert and preserve national control. The balance between internationalization and national sovereignty is constantly changing as powerful forces are pushing in both directions simultaneously and we cannot know whether reconciliation between the two is possible.

The global arena in the last decades has created a favourable context of global governance. First, states are not the only actors; various other actors (civil society, international experts) have become active players. Secondly, there is a rigid concept of territoriality. Most problems are cross-border and transnational in nature. Third, there is a hierarchy of problems. All issues are of equal importance, interdependent, making it a more complex world than ever before.

The role of global governance can be separated into two. On one hand, it can design a structure. Designing a structure - be it architecture or complex framework - provides the ability to create a useful mechanism. On the other hand, global governance can manage a process. In short, we can formulate certain procedures relating to communication, interaction and networking.

1.2. National sovereignty

The growing importance of global governance has brought discussions regarding national sovereignty to a new level. In the contemporary period, sovereignty is still being tested. Most likely, the sovereign state is still the main unit of the international system, but the operation and its legitimacy is underestimated by both external factors and internal factors.

Held and McGrew (2003) believe that sovereignty is disputed because the political authority is compromised by the regional, global, economical and cultural factors. The legitimacy of the state is raised because, due to increasing regional and global interdependence, states can no longer provide basic goods and services to their citizens without international cooperation. However, international cooperation can be often quite inadequate in the face of global problems - from global warming to volatile movements in the financial markets - that can fully escape political settlement.

The principle of national sovereignty is challenged by those who argue that during serious humanitarian crises, the international community (NGOs, international institutions and states) has the right to intervene to help people who are not protected by their states. In the past, only sovereign states and not individuals had a role in international law. Accordingly, within national borders, a political system could do anything with its citizens, even if it meant to be human rights violations or be neglected basic human needs.

Thus, we can say that we are witnessing a transfer of sovereignty from the national state to individuals. Given that there are several levels of government (local, regional, national, global), individuals can target the appropriate form they need. For example, in regards to Human Rights, individuals that feel their rights have been violated by their states, can address to the European Court of Human Rights, at least in Europe. The European Court of Human Rights is a supranational organization which guarantees fundamental human rights and freedoms set out in the European Convention on Human Rights.

Sovereignty is questioned not only in theory but also in practice. Sovereignty is externally challenged by the dynamics of globalization: markets, companies and open technologies, which are permeable boundaries powerful states by external forces. Internally, sovereignty is eroded by internal conflicts and subnational movements and the strengthening of economic development crisis (shortage of resources, environmental degradation, and population growth). This undermines the legitimacy and international underlying national sovereignty. Both external and internal factors have led to an increasing number of countries in collapse. At the same time, even the most powerful states alone cannot manage global problems effectively.

2. The global crisis and the changing distribution of power in the world

The crisis of 2007, which originated in the United States, led the global economy into recession. Under these circumstances, the world is facing a change in the distribution of power in the world.

As a direct consequence of the global crisis, the international community has tried to build a new form of global economic governance centred on the G20. In November 2008, in Washington DC, met the leaders of the world's top 20 economies and agreed a series of measures and a joint action plan to cope with the crisis, including solutions to revive their economies (without affecting the world trade), to regulate global finance, to help the poorest countries affected by the crisis and to reform international institutions, as Ngaire Woods highlights (2010). From the first meeting of G20, an action plan has delegated specific tasks to different international institutions (IMF, World Bank and other multilateral development banks, United Nations Development Programme, the Financial Stability Board). G20 leaders met again in London in April 2009, meeting that strengthened the capacity of the organization to comply with a new action plan, announcing nearly 750 billion dollars for the IMF, for this purpose. All this was again revised in September 2009, at their third meeting in Pittsburgh (Woods, 2010, p.52).

The current financial problems in the euro area could be a boost to justify this process, at least in the short term. In the medium and long term, the crisis will give impetus to the search of new forms of global governance, as it will increase the need to strengthen cooperation on global economic policy. It is possible that the future international relations to be largely characterized by rivalry and cooperation between countries beyond the global ruling establishment. Each state, managed by a political instinct and power, will try to use different forms of governing as a global forum for discussion to maximize their own national interest. At the same time, countries will seek to advance, in order to create public international goods.

On the other hand, the world is constantly changing. Over the last decades, emerging markets and developing countries have experienced unprecedented growth. Global governance has had much to gain from the peaceful growth of the BRICS countries. Approximately one billion people rose from poverty without causing major international turbulence. The global financial crisis has not only boosted the process, but also produced new challenges and difficulties. As the crisis continues, it is clear that global economic growth has evolved. It is also clear that a proportional change in paradigms of global governance has not yet occurred. For example, Van Kerckhoven and Hazenberg (2013) believed until recently that the absence of conflicts in recent decades in large parts of Europe is an argument of the idea that integration and increasing global interconnections discouraged states to

engage in violent confrontations. However, the recent conflict in Ukraine proves that things are not so. The current level of global governance cannot yet guarantee peace and stability, even in the developed world. This not only confirms that global governance is only in its infancy, but it gives it a chance to take the shape and characteristics of specific global phenomena.

At the same time, the power of the United States is questionable. Although in absolute terms the US remains the superior power, in relative terms, its decline gradually became an undeniable fact. US still is a great economic, cultural, symbolic and military power, but the changing distribution of power has impacted global governance and the way the international order is managed. Given the changes in the international environment in recent years, the international community will rejuvenate and align efforts to build global governance in various fields.

However, on short and medium term, global governance is able to come up with progress in at least three directions. The first would be more equal spread of global development. While absolute poverty has fallen dramatically in the past 20 years, inequality has skyrocketed. From a global perspective, the least developed countries continuously lose ground to developed economies. Rather than fall behind the developed countries, least developed economies is likely to fall outside the global economy. And even within countries, inequality is increasing. While balancing growth and distributive justice is a difficult exercise, global governance should require countries to undertake such an exercise.

A further development of global governance would be needed in terms of reducing emissions of greenhouse gases in the atmosphere and stopping global warming. Temperatures are still growing while biodiversity declines at a rate dangerous. The threat of global warming is created by human activity, and the solutions are still in the hand of people. Governments should intensify their efforts to internalize energy harmful externalities.

Third, to achieve a more equal spread of global development and a reduction in emissions of greenhouse gases requires global cooperation as representative. Disregard of the interests of people living in poor or failed states is not only an internal system failure, but more the guilt of the global governance architecture in which these people have only a minor word to say. For example, G20 is watching for the good of a few countries, compared to the number of existing states around the globe. In this context, Africa is almost entirely excluded from international political discourse. The current form of global governance is not representative of most of the states. If NGOs or companies would get politically involved, they would become the designated representative agencies whether they like it or not. As a member, their responsibility is not only to donors or their customers, but also to the international community.

To meet these challenges, we must overcome a lot of obstacles. The first and most important of them is nationalism. National interests still crash often collective solutions. Different national or local preferences (often exacerbated by a strong lobby), are the less inclined to do something for the international community, reducing the possibility of reaching a higher overall result.

In addition, it is worrying that civil society and national media often neglect the international stage. Objective information and international NGOs have enormous potential to increase public awareness of global arena. Citizens must know what makes their country international. Overcoming this obstacle is to discover benign forms of nationalism which remain open so supranational decisions and internally. This implies a precarious balancing act between the desire democratic local decision making and the need for global governance human rights. Currently, unfortunately a lot of local leaders refuse to look beyond the national interest and also many international leaders refuse to recognize the integrity of their communities.

Regarding the future evolution of national sovereignty, Maryann Cusimano Love (2011) sees three possible scenarios. Under the first scenario, the world is witnessing the end of the nation state. Decisions on investment, production and exchange rates are taken elsewhere by institutions and individuals on which states have very little control. National labels are meaningless. States lose their ability to respond to economic blows. In this context, the regions are becoming increasingly important.

According to the second scenario the states are retiring, as their functions are changing. Today, either these functions are fulfilled by other entities, either they are no longer met. Susan Strange (1996) discuss some of the functions in the decline of states. First, the state is responsible for the defence of the national territory, but in developed countries there is minimal danger of foreign invasion, thus being eroded state authority. Second, the state must provide foreign currency value, but inflation of a country can be transmitted to others. Third, states used to choose the form of desired economic development, but open economies allow market pressures from the IMF, the World Bank and private investors to limit the choices of states.

At the same time, the contemporary state no longer orders resources but negotiates, gaining strength in foreign direct investment, educated workforce and a skilled market and not a military superiority and territorial control. Thus, there is a crisis of democratic politics as countries lose some elements of autonomy in selecting and applying policy to unelected and non-state actors.

The third scenario assumes that nothing fundamental has changed in terms of national sovereignty because existing states have little incentive to change the system. States shall guarantee the international system, so it is difficult for non-state actors to have equal rights in this system. The evolution of the European Union proposes an alternative model to traditional sovereignty, but there

are just few serious challenges to sovereign arrangements. National sovereignty is becoming increasingly entrenched as far as religious, ethnic and nationalist challenges enhance the state. In spite of the fact that national sovereignty is not an optimal arrangement, it is too early to declare its extinction. Furthermore, in response to the economic crisis in 2007, many states have tried to revive national institutions and public expenditure.

All the above scenarios regarding the future of national sovereignty include well argued statements, but that only capture distinct aspects of the same reality. We are not witnessing the end of the national states yet, but it is obvious that their role has changed. In the short and medium term, we are witnessing what is called global governance, understood as a mechanism for state and non-state entities to seek solutions to transnational problems, through cooperation in order to manage the globalization in the context of the exchange of power distribution. On this basis, strengthening global governance inevitably translates into the development of institutions whose purpose is to find an appropriate balance between national sovereignty and global responsibility.

Conclusions

In conclusion, the concept of global governance must take a deeper meaning. Global governance must be seen as the only realistic way of governing in a world increasingly complex and interdependent. There is still much room for constructive action, and all nations and interested organizations should participate in this difficult task. The recent global crisis has shown that states alone cannot cope with both their internal problems and especially the increasing global challenges. Although states are facing the fear of the erosion of their national sovereignty, they must adapt and give some of their powers to supranational actors to respond better to global issues and challenges.

It is clear that the concepts of global governance and national sovereignty will mutate, as there will be another system of interaction between the main national and international actors. Basically there will be a new world order as "black swans" (extreme events, unexpected and atypical), as Nassim Nicholas Taleb calls them, will shape the world.

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UNE INTERPRETATION DU TAUX DE CHANGE

Galina ULIAN *
Lucia CASTRAVET **
Silvestru MAXIMILIAN ***

Résumé: *Dans l'étude ci-dessous on a été réalisé une interprétation de l'impact des fluctuations des taux de change du leu moldave (MDL) sur certaines variables économiques. La période considérée est Novembre-Décembre 2014 et le début de l'année 2015. Notamment au cours de cette période, le taux de la monnaie nationale par rapport aux principales devises de référence de change a commencé la voie de fortes dévaluations. Cette tendance, cependant, s'est placée dans le contexte des situations similaires dans la région, qui a ainsi permis sa dépréciation graduelle. Compte tenu que la dépréciation de la monnaie est un phénomène aux effets complexes et multilatérales, une fois arrivé dans un pays "X" celui-ci devrait, afin d'améliorer la situation, en premier lieu, augmenter leur présence sur d'autres marchés de ventes, plus stable et avec de plus grandes possibilités.*

Mots-clés: taux de change, transaction, achat et vente, le marché des changes, le baril, dépréciation, euro, dollar, leu moldave

Classification JEL: F3, F4

Introduction

Selon les données des bulletins d'informationnels de janvier 2015, le volume des transactions dans les bureaux de change en Moldavie était en hausse. Le chiffre d'affaires (CA) total d'achat et de vente faits à partir des principales devises contre MDL effectués sur le marché interne des changes en Décembre 2014, s'élève à 334,5 millions de dollars, en hausse de 12,4% par rapport à Novembre 2014. (Stepanov, 2015) Selon les données du Banque Nationale de Moldova (BNM), les achats de devises contre MDL en décembre 2014 ont augmenté de 7,1% et se élèvent à 208,5 millions USD (équivalent) et le volume des ventes a augmenté de 22,3 % - jusqu'à 126 millions de dollars (Banca Nationala a Moldovei, 2015).

Le chiffre d'affaires total de transactions d'achat et de vente contre MDL des principales devises du marché des changes en décembre 2014, les transactions en euro représentaient € 182,9 millions de dollars (54,7% du chiffre d'affaires total), en hausse de 17% par rapport au mois précédent. Le volume d'achat des euros a augmenté de 14,3% et s'élève à 109,4 millions de dollars, tandis que le volume des ventes a augmenté de 21,3% - jusqu'à 73,5 millions de dollars. Les opérations impliquant les dollars ont augmenté de 17,4% et s'élèvent à 103 millions de dollars ou 30,8% du total. Le volume d'achat des dollars a augmenté de 9% et s'est élevé à 58,3 millions de dollars, tandis que le volume

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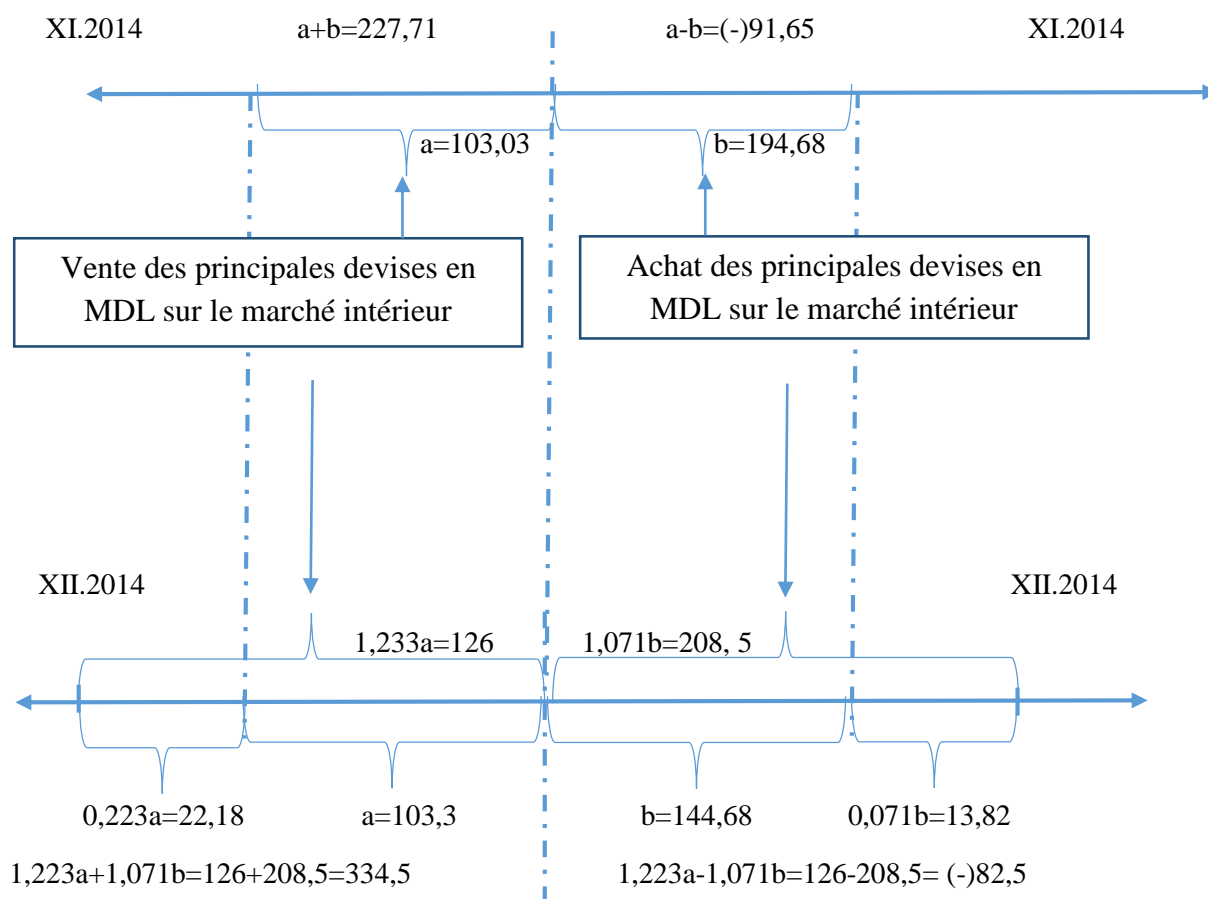
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des ventes a augmenté de 30,7% pour atteindre 44,7 millions de dollars. Le volume des transactions avec rouble russe a été de 43,6 millions de dollars ou 13% du total, 10,1% de moins qu'en novembre 2014. Le volume d'achat du rouble a chuté de 10% et s'est élevé à 38,5 millions USD, et le volume des ventes a diminué de 10,5% - jusqu'à 5,1 millions de dollars. (Stepanov, 2015) Le volume des opérations avec le leu roumain était de 3,8 millions de dollars, 1,1% du total, 2,7% de plus qu'en novembre 2014. Le volume d'achat de leu roumain a diminué de 10,5% et constitue 1,7 millions de dollars, tandis que le volume des ventes a augmenté de 16,7% - à 2,1 millions de dollars. Le volume des opérations avec la hryvnia ukrainienne a totalisé 1,2 millions de dollars, ou 0,4% du total, 14,3% de moins qu'en Novembre 2014. Le volume des ventes des hryvnias a chuté de 14,2% et s'élève à 0,6 mlns. USD dans les deux cas. Par contraste, au Décembre 2014, la part des transactions avec les dollars aux bureaux de change a augmenté de 1,3 point de pourcentage, la part des transactions à taux a augmenté de 2,2 points de pourcentage. La part des transactions avec le rouble russe a chuté de 3,3 points de pourcentage, tandis que la part des transactions de leu roumain et de la hryvnia ukrainienne a chuté de 0,1 points de pourcentage chacune. (Stepanov, 2015) Ces données pourraient être présentées dans les figures ci-dessous.

L'analyse des données

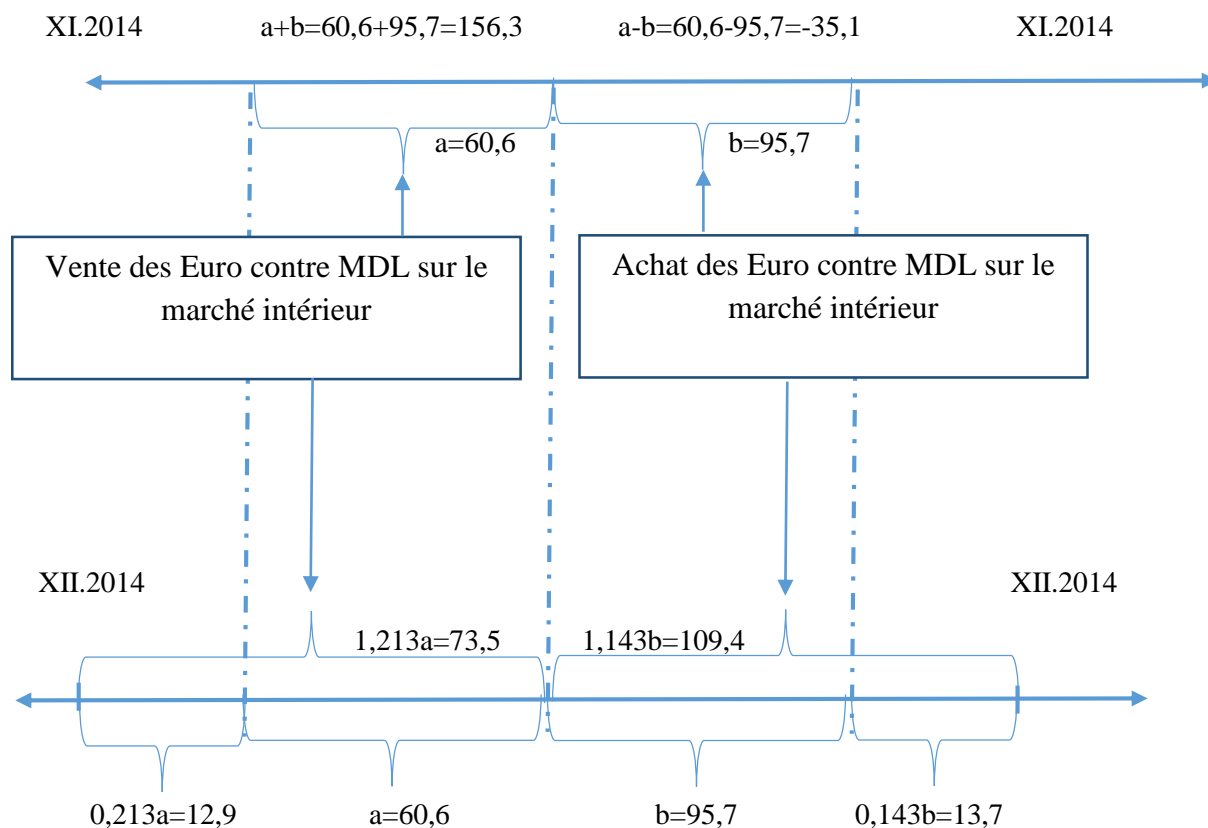
Figure 1 - Le CA total de transactions contre MDL des principales devises (millions USD)



Source: élaboré par les auteurs

Ainsi, selon la figure 1, en novembre 2014 le chiffre d'affaires des transactions avec le MDL des principales devises, enregistrées sur le marché des changes au comptant était $A + B = 277,7$ (millions de dollars); en décembre 2014 cet indicateur était déjà 334,5 millions dollars. La vente des principales devises par rapport au MDL sur le marché de change, au comptant en novembre 2014 était $A = 103,03$ (millions dollars); en décembre 2014 ce chiffre était de 126 millions de dollars, soit une augmentation de 22,3%. Le chiffre d'affaires des principales devises a augmenté de 20,4%, des achats - avec (de 208,5 à 194,68/194,68*100%) = 7,1%. En novembre 2014, l'achat des principales devises a dépassé les ventes de 91,65 millions de dollars; en décembre 2014 de 82.500.000 dollars. La "chasse" des devises Euro et USD a continué en décembre 2014 et devrait persister au début de 2015.

Figure 2 - Le CA des transactions contre MDL de l'euro (millions euros)



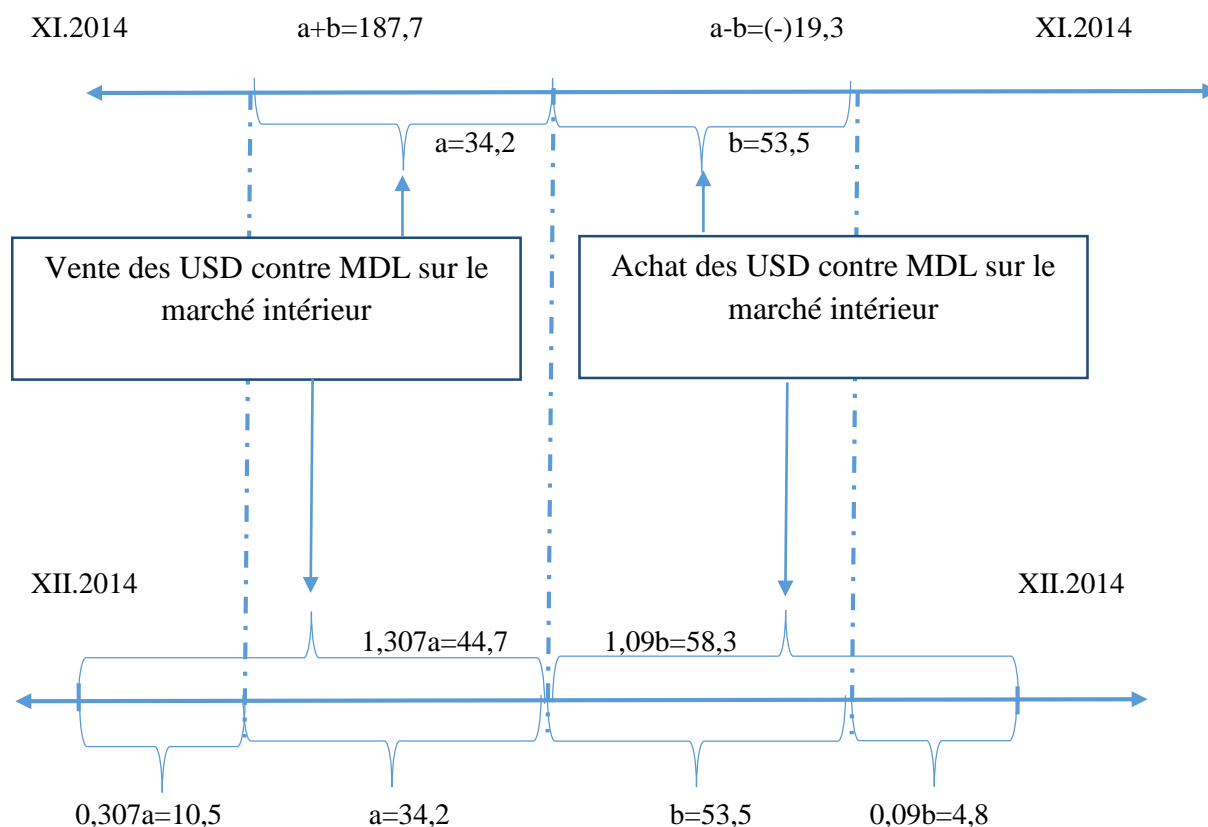
Chiffre d'affaires : $1,213a+1,143b=73,5+109,4=182,4$ (EUR) ou 57,7% du chiffre total.
 Solde: $1,213a-1,143b=73,5-104,4=-30,9$ face à 11,2014 a augmenté de 2,3%.

Source: élaboré par les auteurs

Regardons chiffre d'affaires, les ventes et achats de la devise européenne dans les mois novembre-décembre 2014 (figure 2): le chiffre d'affaires en novembre 2014, la vente et l'achat de l'euro contre le MDL était $A + B = 156,3$ (millions de dollars); le solde des achats et ventes $(a-b) = (-) 35,1$ – les achats des euros en novembre 2014 ont dépassé les ventes de 35,1 millions. En décembre 2014 les ventes de lei rapport à l'euro ont augmenté de 21,3% ou 12,9 millions euro, les achats ont augmenté de 13,7%. L'Euro est «recherché » sur le marché intérieur en Moldavie. Le solde de l'achat et de la vente reste négatif en novembre 2014 et décembre 2014, et a même augmenté de 2,1%, ou 0,8 millions d'euros. Le chiffre d'affaires, le solde de l'achat et la vente d'euros contre MDL en dynamique (novembre-décembre 2014) ne sont plus déterminés par des facteurs économiques, le volume des envois de fonds, les exportations, les importations, le niveau de participation dans le marché des changes interne de la Banque nationale de Moldavie avec des "soutiens" d'euro, mais par la méfiance, l'incertitude des clients de l'évolution de la tendance négative vers le positif. Le chiffre

d'affaires, le solde de l'achat et la vente sur le marché interne des changes au comptant en USD contre MDL ne diffère pas trop (Figure 3).

Figure 3 - Le chiffre d'affaires des opérations des USD contre MDL (millions de dollars)



Chiffre d'affaires: $1,307a + 1,09b = 44,7 + 58,3 = 103$ (mln USD) ou 30,8% du total.

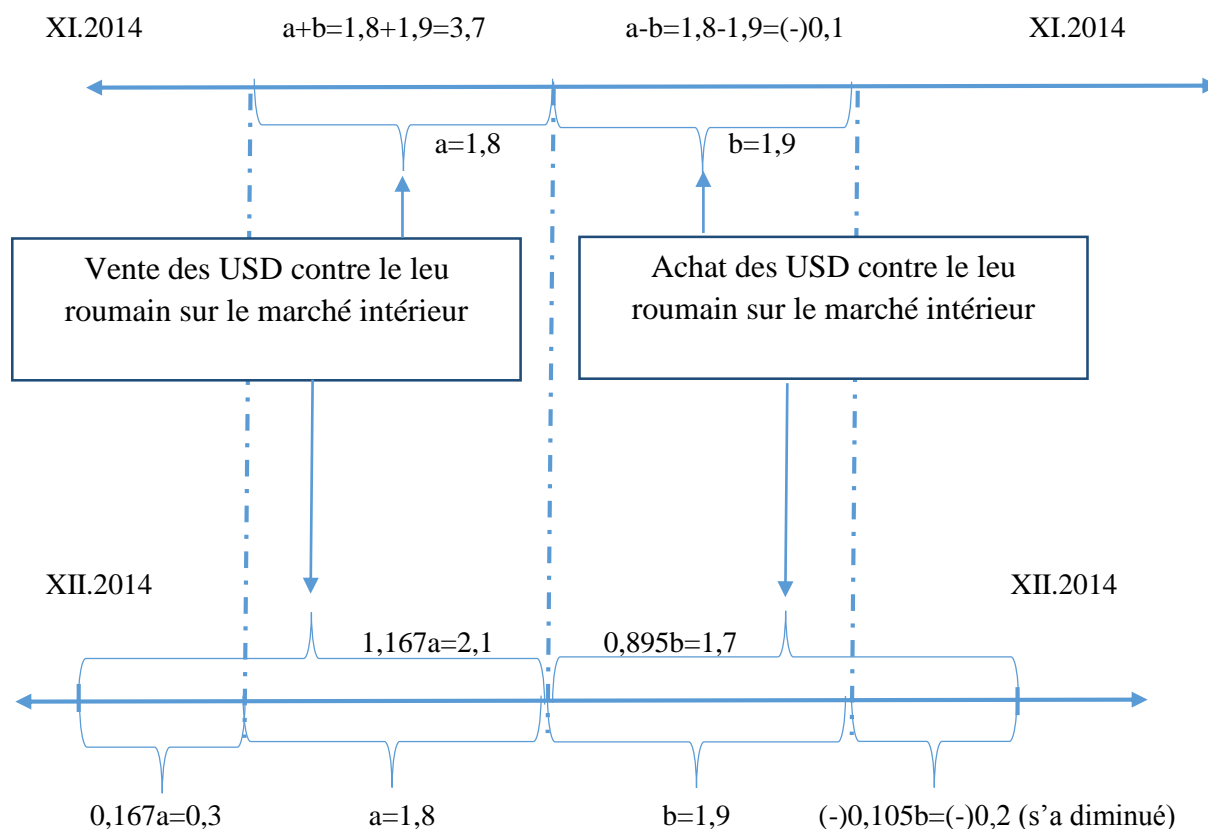
Solde : $1,307a - 1,09b = 44,7 - 58,3 = (-) 13,6$ par rapport au décembre 2014 diminué de 5,7%.

Source: élaboré par les auteurs

Le chiffre d'affaires des transactions, le solde des transactions d'achat et de vente en USD novembre, décembre 2014 était comme suit: $a + b = 187,7$; $(A, b) = (-) 19,8$ (millions de dollars); $1,09b = 1307 + 44,7 + 58,3 = 103$ (millions de dollars); $1,307 - 1,09b = 44,7$ à $58,3 = (-) 13,6$ (millions de dollars). Le solde des transactions d'achat et de vente en décembre 2014 par rapport au novembre 2014 a légèrement diminué de 5,7%. Le dollar américain en novembre, décembre 2014 a continué d'être acheté contre lei. La méfiance ou autrement - la confiance des clients dans une nouvelle dépréciation du MDL, a créé en Moldova une «panique» sur le marché interne des devises au comptant. La modification de la tendance négative de devises vers le positif, en soutenant le marché

par les ventes des dollars de BNM devient de plus en plus problématique et irréaliste. La cause de l'apparition d'un nombre important d'acheteurs de dollars s'explique par la vente de dollars par les acheteurs de la Moldavie en Russie, en Ukraine. Cette déclaration est confirmée par les données des figures 4 et 5.

Figure 4 - Le chiffre d'affaires des opérations du leu roumain contre USD (millions de dollars)



Chiffre d'affaires: $1,167a + 0,845b = 2,1 + 1,7 = 3,8$ ou 1,1% du total.

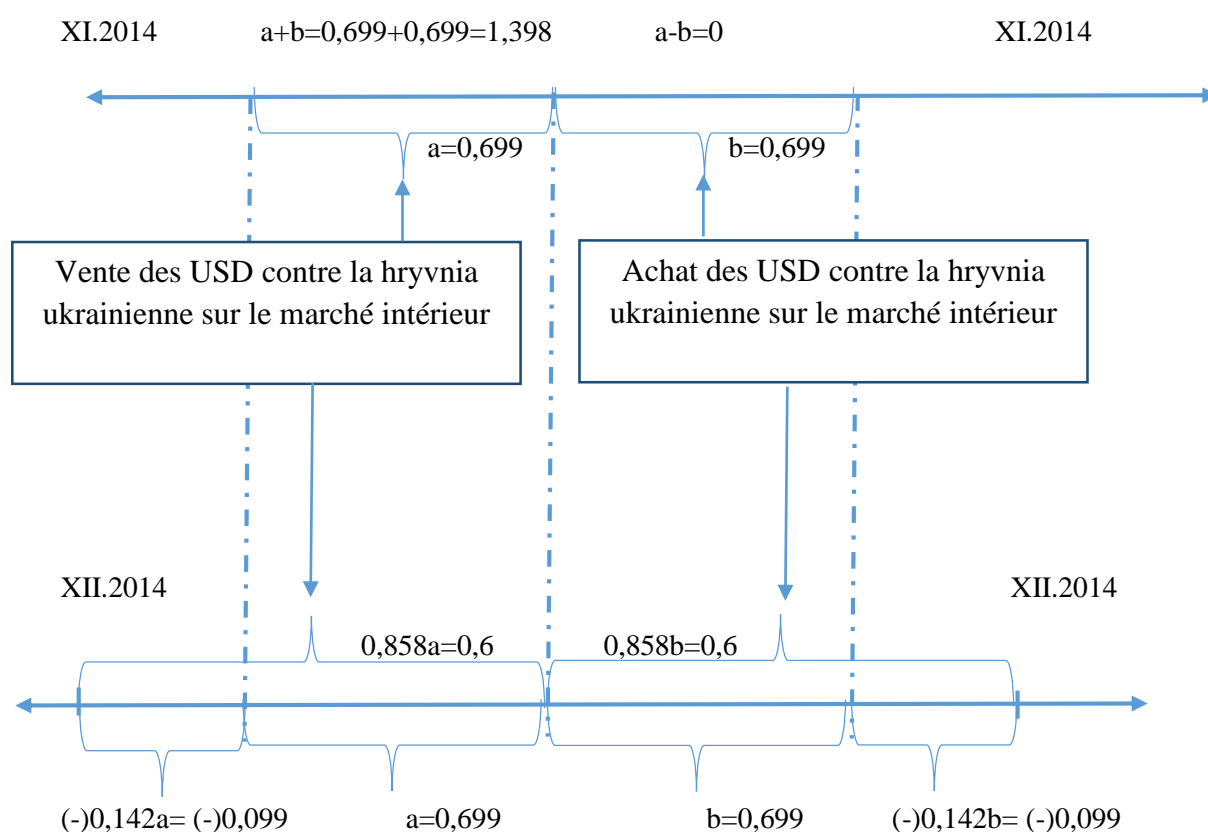
Solde: $1,167a - 0,845b = 2,1 - 1,7 = 0,4$ par rapport au novembre 2014 diminué de 5%.

Source: élaboré par les auteurs

Le leu roumain sur le marché de change interne au comptant n'a pas eu un impact négatif. Le chiffre d'affaires d'achat et de vente, le solde de l'achat et la vente en novembre, décembre 2014 s'élevait respectivement $a + b = 3,7$; $(a - b) = (-) 1$ (millions USD); $1167 + 0,895b = 3,8$ (millions de dollars); $1,167 - 0,895b = 0,4$ (millions de dollars). Le solde des transactions d'achat et de vente en novembre 2014 a été négatif (-) (0,1 millions de dollars); en décembre 2014 - positif - (+0,4 millions de dollars). Les achats du dollar contre le leu roumain, sur le marché des changes, en décembre 2014

par rapport à novembre 2014, a diminué de 0,2 millions USD, de 10,5%. En d'autres termes, les dollars n'ont pas été achetés en Moldavie pour ensuite être vendus en Roumanie. Ainsi, "la tempête" du taux de change en Moldavie a été générée et amplifiée par les problèmes des transactions de change rouble-dollar; dollar-rouble (Figure 4).

Figure 5 - Le chiffre d'affaires des opérations de l'USD contre la hryvnia ukrainienne (en millions de dollars)



Chiffre d'affaires: $0,858a+0,858b=1,2$ ou 0,4% du total.

Solde: $0,858a-0,858b=0$ par rapport au novembre 2014 est resté le même.

Source: élaboré par les auteurs

BNM a eu une politique plus appropriée à la situation pour stabilisation du prix de vente, d'achat des dollars contre la hryvnia ukrainienne (Fig.5). En novembre-décembre 2014 le chiffre d'affaires, le solde des achats-ventes des USD constituait $a + b = 1,348$; $a-b = 0$; $0,8586 + 0,8586 = 1,2$; $0,8586 - 0,8586 = 0$. L'achat et la vente du dollar contre la hryvnia ukrainienne sur le marché de change en Décembre 2014 par rapport au novembre 2014 ont diminué de 14,2%. La politique de

BNM dans ce cas a été appropriée à la situation incertaine sur le marché des devises de Moldova et de l'Ukraine.

La tendance de dévaluation du MDL a entraîné une augmentation des prix, y compris de la production industrielle, de 4% en 2014 par rapport à 2013. Les prix dans l'industrie extractive ont augmenté de 4,4%.

Par conséquent, il semble que dans les derniers mois de 2014, le MDL s'est fortement déprécié. Seulement dans les 23 premiers jours du 2015 le leu a baissé de 10% contre le dollar et plus de 3% contre l'euro. Et cette tendance s'est maintenue. Parmi les causes de la dévaluation du MDL peuvent être énumérées: la situation géopolitique dans la région; la forte demande contre le dollar américain; la réduction du prix du pétrole; la diminution des envois de fonds en Moldavie de la Russie; l'incertitude des détenteurs des lei dans les conditions de hausse de la méfiance en roubles, hryvnias; le manque des explications analytiques sur la formation du taux de change des devises: l'euro-dollar, rouble-dollar, hryvnia-dollar, leu-dollar; l'absence des mécanismes gouvernementaux de maintien de "l'autorité" du leu.

En principe, toute dépréciation de la monnaie nationale favorise les exportateurs et les importateurs sont en désavantage, mais la déclaration perd de son contenu lorsque la «dévaluation dépasse un certain niveau». La hausse des exportations, l'augmentation des taxes des importations (au moins de certains produits de luxe) pourraient aider à maintenir la valeur de la devise nationale.

Dans chaque pays les activités des banques commerciales ne sont pas moins importantes. Celles-ci (les banques) ne contribuent pas toujours au volume de dollars américains ou euros sur les marchés nationaux en achetant en dollars des titres de certains sujets économiques; ne visent pas à cumuler des monnaies nationales et octroyer des prêts en monnaie locale. Chaque banque commerciale individuellement, en fonction de ses intérêts, résous ses problèmes, ne participant pas au règlement des flux monétaires au niveau macro. Aussi il les activités sont importantes des banques centrales nationales, qui ne sont pas toujours adéquates aux situations financières sur les marchés nationaux. Dans certains cas, l'attitude des banques centrales, multiplie l'incertitude, la méfiance de la population de la monnaie nationale. Apparemment Moldova n'a rien à faire avec la dévaluation de la hryvnia, rouble russe, mais les conséquences négatives sont de plus en plus évidentes. Parfois, les banques centrales ont des stratégies rigides qui ne sont pas conformes à la crise économique, financière, politique, militaire, sociale, écologique des états. Un calcul élémentaire: le spéculateur achète des dollars dans le pays "X" et il les vend dans le pays "Y" ou pays «Z». Les dollars dans le pays "X" "remplissent" les poches des spéculateurs, appauvrissant la Banque Nationale du pays "X" des réserves en devises. Ce n'est pas le seul aspect qui obligerait les banques centrales à "améliorer" la stratégie, c'est à dire les règles, les actions, les méthodes, les moyens de traiter les problèmes

financiers quotidiens. Les stratégies de la Banque Nationale doivent être liées à celles du gouvernement des pays. L'augmentation immotivée du volume de la monnaie en circulation, naturellement, il contribuera à son développement. Le manque de mécanismes nécessaires pour quantifier la monnaie, les moyens de l'extraire de la circulation grâce aux taux bancaires est un autre aspect à être inclus dans les stratégies des Banques Nationales et des gouvernements des États.

Si nous revenons à la Moldova, le taux de change dollar-leu est important, mais ne peut pas servir de mécanisme pour résoudre les problèmes économiques du pays. Le taux de change peut être "destructif" et très peu constructif, selon les flux, les reflux de dollars vers et au dehors de Moldova. Mais ils (les flux) ne sont pas générés pas par le taux "d'échange", mais par le potentiel économique, la structure de l'exportation, de l'importation, les politiques en matière de relations économiques internationales de RM. La dévaluation par rapport au dollar peut être saisonnière. Mais une telle dévaluation devrait être de 2-3% par rapport à la période précédente. Pour faire une interprétation de l'évolution du taux de change, nous supposons les suivantes:

$a_t \frac{EUR}{USD}$ le taux moyen de change de l'euro contre le dollar américain à l'instant t ;

$b_t \frac{USD}{baril}$ prix en dollars d'un baril de pétrole à l'instant t;

$a_t \frac{EUR}{USD} * b_t \frac{USD}{baril} = a_t * b_t \frac{EUR}{baril}$ le prix en euro d'un baril de pétrole à l'instant t.

Au moment (t + 1) le prix du pétrole a baissé, par exemple, de $\Delta b_{t+1} \frac{USD}{baril}$, c'est à dire à un taux égal à $\frac{\Delta b_{t+1}}{b_t} = \beta_{t+1}$. Le taux de l'euro par rapport au dollar américain au moment (t + 1) sera:

$$a_{t+1} \frac{EUR}{USD} = \frac{a_t * b_t \frac{EUR}{baril}}{b_t(1-\beta_{t+1}) \frac{USD}{baril}} = \frac{a_t \frac{EUR}{baril}}{(1-\beta_{t+1}) \frac{USD}{baril}}$$

Ainsi le taux moyen de change de l'euro contre le dollar américain ($a_t \frac{EUR}{USD}$) dépend inversement du prix en dollars américains d'un baril de pétrole à l'instant t. lors d'une réduction des prix du pétrole de β_{t+1} pourcent l'euro contre le dollar sera moins chers à:

$$\Delta a_{t+1} = a_t : (1 - \beta_{t+1}) - a_t = a_t \left(\frac{1}{1-\beta_{t+1}} - 1 \right) = \frac{a_t * \beta_{t+1}}{1-\beta_{t+1}} \left(\frac{EUR}{USD} \right)$$

Sinon lire: la baisse du prix du pétrole génère un «surplus» d'euro « pas couvert» par dollars, il reste plus d'euros pour un dollar, le dollar est plus cher, ça déprécie l'euro. La tendance peut être modifiée par «l'apparition» d'un «surplus» de dollars qui servirait à «couvrir» le «surplus» d'euro. Dans ce contexte, dans la zone euro on a initié certaines actions.

Au début de l'année 2015, la direction de la Banque centrale européenne a proposé des 01/03/2015 des mesures d'assouplissement quantitatif en valeur de 50 milliards d'euros (58 milliards de dollars américains) par mois jusqu'à la fin de 2016. Dans les mois 01.03.2015-31.12.2016 dans ce

cas pourraient être injectés 1,1 trillion d'euros ($50 * 22 = 1100$ de milliards = 1,1 billions d'euros) qui permettraient d'élargir le bilan de l'institution, empêcheraient la déflation, permettraient de stimuler la reprise de la zone euro. Le taux d'inflation annuel dans la zone euro a continué de baisser en décembre 2014 en raison de la réduction des prix en 'énergie, pour atteindre moins 0,2% de niveau de plus de 0,3% enregistré en novembre 2014. C'est la première réduction de l'inflation dans la zone euro après octobre 2009. Si cette tendance se maintient, la zone euro va entrer dans une période de déflation. (Commission européenne, 2014)

L'assouplissement quantitatif peut être effectué via des achats d'obligations souveraines et des obligations d'entreprises impliquant des banques centrales nationales de la zone euro. Lors d'une augmentation des prix du pétrole, les relations ci-dessus feront:

$$a_{t+1} \frac{EUR}{USD} = \frac{a_t * b_t \frac{EUR}{baril}}{b_t(1+\beta_{t+1}) \frac{USD}{baril}} = \frac{a_t}{1+\beta_{t+1}} \left(\frac{EUR}{USD} \right)$$

Lors d'une hausse (potentielle) des prix du pétrole, exprimé dans $\frac{USD}{baril}$ de β_{t+1} pourcents, l'euro augmentera contre le dollar américain de:

$$\Delta a_{t+1} = a_t - \frac{a_t}{1+\beta_{t+1}} = \frac{a_t \beta_{t+1}}{1+\beta_{t+1}} \left(\frac{EUR}{USD} \right)$$

Le taux de change, basé sur le rapport: la monnaie nationale contre USD, étant substitué par le produit de la monnaie nationale / USD et du prix du pétrole USD / baril, est identique à l'exclusion du dollar en tant que unité de mesure et substitué par la monnaie nationale / baril. En d'autres termes, une unité de mesure du taux de change (dollar américain) a été remplacée par une autre unité (le baril). Le prix du baril, sous l'impact d'un certain nombre de facteurs, s'est transformé en une fonction décroissante au fil du temps. La baisse des prix du pétrole suppose dans toute économie nationale "moins de dépenses", réduisant ainsi le PIB national. Mais celui-ci (PIB), doit "récupérer" éventuellement les pertes par l'amélioration économique après la baisse des prix du pétrole. L'amélioration peut se produire avec un certain délai, après lequel le PIB national va augmenter, ainsi que les exportations et les taux de change. Cependant, l'impact positif de la croissance du PIB à partir de pétrole moins cher, vient en grand "retard" et donc le taux de change national est réduit.

Remarques finales

Par conséquent, le problème du maintien du taux de change relativement stable pourrait être résolu par la "mise" dans le circuit économique d'un volume de dollars américains, ce qui allégerait le «fossé» créé par la réduction des prix du pétrole. À cet égard, la décision de la BCE de faire circuler chaque mois 50 milliards d'euros lors de la période mars 2015-décembre 2016 est justifiée et

nécessaire. Le fait de faire entrer dans le circuit économique des montants supplémentaires peut être obtenu par l'achat d'actions par toutes les banques commerciales de l'UE.

Selon les estimations du FMI, l'économie mondiale en 2015, 2016 augmentera de 3,5% et 3,7%; La croissance économique américaine va dépasser 3,6%; L'économie chinoise continuera le ralentissement de la croissance du PIB de 6,8% et 6,3%. L'or sera plus cher, pour atteindre \$ 1,280 cotation / once (au début de l'année 2015). SPDR Gold Trust, le plus important fonds soutenu d'or, a augmenté ses actifs à environ 740 tonnes (SPDR Gold Trust, 2015).

Il est à constater que les prix du pétrole, économiquement injustifiés au cours des dernières années (plus de 115 USD / baril), ont permis d'accroître les bulles financières qui ont "gonflé" les prix de tous les produits des pays exportateurs de ressources pétrolières. La baisse des prix du pétrole permettrait à "casser" les bulles financières (Bushuev, Isaev, 2014).

Dans l'ensemble, l'économie mondiale suite à la réduction des prix des ressources énergétiques, bénéficiera économiquement, écologiquement, socialement. La baisse des prix de l'énergie pourrait faire des changements géopolitiques, l'intérêt pour les ressources pétrolières dans certaines régions de la Terre pourrait diminuer.

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THE VALUE OF INTEGRITY IN THE REPORTS OF WORK

Simona-Roxana ULMAN*

Abstract: *The most important aim of this paper is to identify the main general ethical values conducting to personal integrity, to build the general ethical values pyramid and, so, helping to improve the reports of labor for having positive results on the economic field. In this context, the human psychological development theory thorough by Maslow is exploited as example for the building of a human values hierarchy necessary to the individual as a social being to engage in normal interactions with the others. These general values are an imperative for the person's integration in society, also contributing to his belonging society's welfare and to its performance.*

Keywords: ethical values, reports of work

JEL Classification: A14, A01

Introduction

Long deliberations on the crisis theme were and are present in the economic research area. Different subjects were up for debate trying to find the eventual causes of this negative phenomenon apparition that damages the social and economic circumstances. Starting from financial, managerial errors and going to superficiality, demagogy, lack of objectivity characterizing the social and economic actors and their actions that, resumed, firmly define the daily macroeconomic reality with all its pregnancies, the ethical aspect was unlooked. Ernest Bernea (2011) emphasizes that thousands of pages were written by the everywhere analysts that spoke about the crises' causes, ways of action and effects without being conscious of its roots: "They speak about the block, branches, head and fruits, but do not say anything about the root". The actual economic crisis is so persistent and with such grave effects on the economic and social totality because it has on its base a moral crisis of those who are on the top of the social pyramid, but also, of those from its basis. In this context, it have to be emphasized that the true source of the actual economic crisis has as a starting point the human factor, meaning the impossibility of the community members to attend normal, correct, responsible and trustworthy relations.

1. The pyramid of general ethical values

The aim of this paper is to identify the main general ethical values conducting to personal integrity, to build the general ethical values pyramid and, in this manner, to offer a practical

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explanation for what we call integrity from the work reports. In this context, the human psychological development theory thorough by Maslow is exploited as an example for the building of a human values hierarchy necessary to the individual as a social being to have normal reports with the others.

The start is the duty as a foundation value without which the individual would not be able to pass on the next pyramid's levels: dignity, cooperation, social responsibility or integrity. It happens because no one may pretend to be dignified, cooperator, moral responsible or integer without respecting the rules, the norms, the laws, the society's unwritten principles, but especially, those written.

Similar to the Maslow's Hierarchy of Needs, the advancement to the top of the pyramid of the general ethical values is accomplished in a progressive manner: winning one value is impossible without achieving the former one. So:

-dignity cannot exist without duty as the need for safe cannot be wanted until the physiological needs are satisfied;

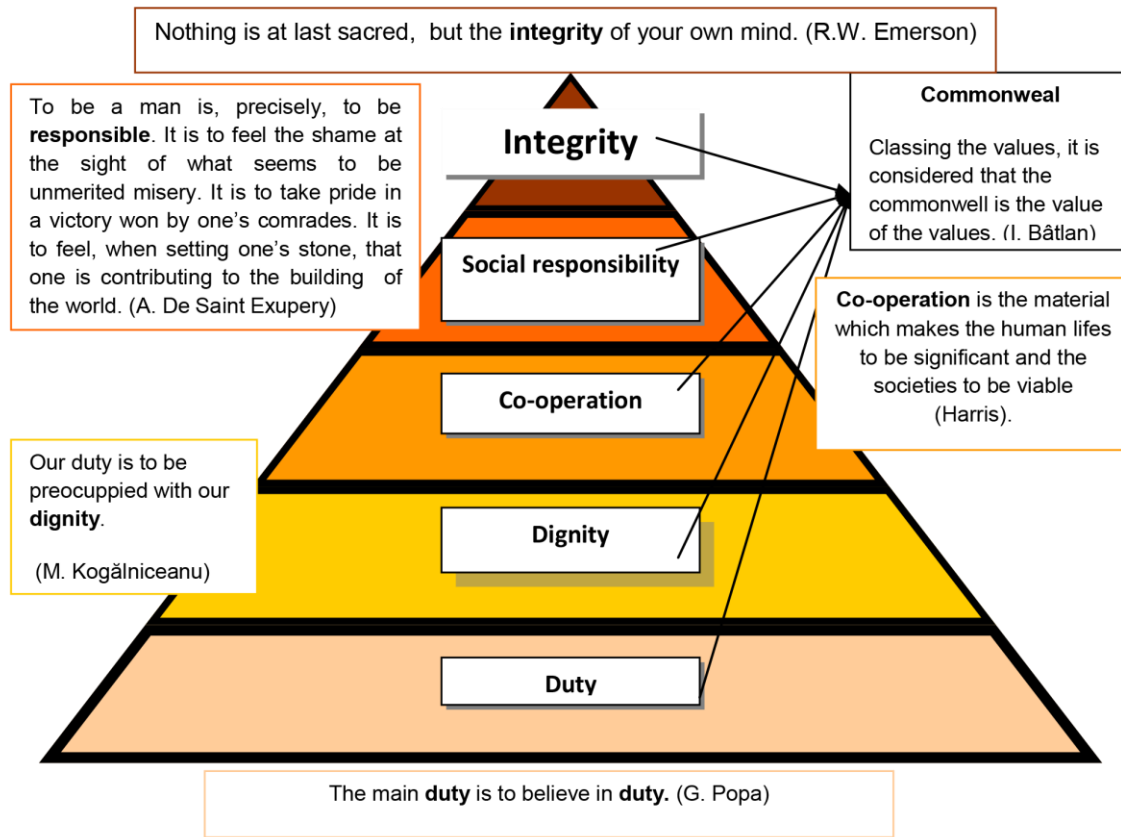
-co-operation cannot be achieved out of the respect of the dignity and duty principles, equal situation with the one of the individual who cannot concentrate on the love or belonging needs without the physiological and safety needs being achieved;

-social responsibility doesn't exist if the individual does not respect his moral duties towards self and society, if he is not dignified and does not co-operate with the other members of the society from his or her work reports as the esteem need cannot be fulfilled if the needs before it are not satisfied;

-integrity does not exist out of respecting the duty, the dignity, the co-operation and the moral responsibility values as the self-actualization need does not exist when the former needs (physiological, safety, love/belonging, esteem) are not satisfied.

The reports of labor that do not subordinate to duty are fated from the beginning to fail. So, the duty, in its double sense – moral and judicial, is exactly the starting point or the basis on that a report of work is built, indifferent to its platitude or complexity. According to this, the duty from the pyramid of the general ethical values can be considered as equivalent to the basis of Maslow's Hierarchy of Needs, physiological needs. As it happens in the theory of needs, the advancement to the superior level cannot be possible without achieving the former value, the same happens in our case: the dignity, as the second level of the pyramid, cannot be acquired without achieving the value of duty. So, initially, the individual forms his spirit of duty of judicial and moral obligation towards himself and society and, then, he can pretend himself to be dignified. Without respecting laws, norms, regulations and rules, the dignity is impossible to be gained.

Figure 1 - General ethical values pyramid – prerequisite for the efficient work reports

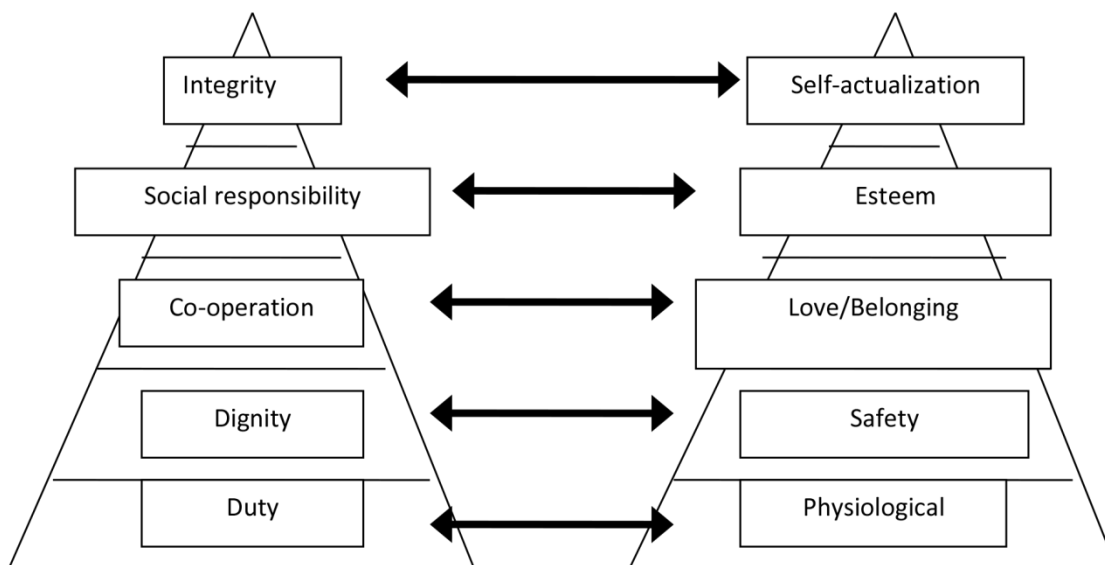


Source: author's work

2. Main characteristics of the public values

All the societies, including the modern and judicial specialized ones, allow the evasion or, even, the circumvention of some social-moral civil obligations and indebtedness in the conditions of respecting the law. In this context, the duty, as the ethical value through which the laws and the regulations are respected, is not enough for an efficient and beneficial for the society report of work. It must be completed by dignity, as the human value of the second level of the general ethical values pyramid and corresponding with the safety needs from Maslow's Hierarchy.

Figure 2 – General Ethical Values Pyramid versus Maslow’s Hierarchy



Source: author’s work

The dignity is the value that helps the individual directly implied in the community’s life and with impact on its progress to internalize the written and unwritten rules and laws, becoming, in this way, a constituent part of the moral person. In this case, the individual is not capable to abdicate from them, indifferent to the confronted situation. This internalization is gradual, till childhood, starting from simple rules majoring its level of complexity as the experience of life is attained.

Co-operation among people is one of the most important elements of the society, being possible to be even the most important one; it is the fact that makes the human lives to be significant and the societies to be viable (Harris, 2010, p. 53). The dignity reveals the self-person respect and, then, it is rounded by the respect for the others with whom the person interacts in his quotidian activity. In this way, it is possible the advancement to the next level of the pyramid – the co-operation level – which is the correspondent of the love/belonging needs from the Maslow’s pyramid. The co-operation means the good and prolific relation to the nearby persons.

Mises sustains the direct correlation between the human action and the division of labor as a consequence of the first one’s progress and giving birth, in this way, to what is called today co-operation (Mises, 1985, cited in Pohoata, 2009, p. 118). So, individuals and their necessities provoked the apparition of the division of labor for a better satisfaction of the human needs. Starting from them, helped by some efficient solutions, close by the conviction that the individual is a social human being, this division of labor appeared and spread all over the world and provoke the process of specialization. For all these aspects, the co-operation as an ethical value is required. In this way, every actor implied

in labor reports must be aware that he has to accept both the pluses and the minuses of his belonging environment and to be open to communicate and even to negotiate. Indifferent of the simplicity or the complexity of work reports among individuals, without this mentioned elements, the work's outcome is inefficient and not on the long term.

The origin of responsibility is in the rational and conscious part of the human nature. It is the value wanted to be deliberately, not strained, assumed by the individual. It best promotes the freedom of the will, owned by every human being, but possible to be used with discernment only by the grownups. Responsibility, as co-operation, is determined by the human condition as a social being and it adapts on the historical and social context from that moment. We participate at an enhancement of its complexity and of its arias of application: political, judiciary, professional, homelike, etc., all these elements having the moral responsibility as common principle.

In this context, the human behaviors are responsible and determined through decisions taken with discernment depending of the advance on the fourth level of the pyramid of the general ethical values. Starting from the duty, as the basis value needed to be respected in a work report, and followed by the dignity and the co-operation, the ethical condition of an individual is possible to be enriched with the fourth essential and complex value – moral responsibility. This cannot be acquired without the other values before it and has as correspondent the esteem need on the Maslow's hierarchy. So, the responsibility cannot exist without the respect for laws, rules and regulations and essential society's written or un-written norms, without the cultivation of dignity's principles and without the co-operation's promotion and practice as an intertexture of personal interests with the others' ones for the achieving of a common objective. In other words, an individual, who is not capable to respect the three mentioned values, is not capable to be morally responsible, that means a „conscious and wanted self-engagement having as its basis a choice among more possibilities” (Batlan, 2008, p. 103), choice made, first of all, taking into consideration the moral aspect. So, even if an option gives superior financial benefits, a moral responsible individual would not take it into consideration, if it does not respect the limits of morality.

Integrity represents the supreme ethical value of the social actor that is employed in human reports. It is gained in individual's evolution, being a sum of values defining the complete ethical person, respecting the moral principles without taking into account the public opinion, the pressure exerted by superiors, by third parties or even by his own temptations. The integrity value appears as a direct consequence of the advancement on the scale of values, being on the top of it, possible to be attained only after the individual's ethical maturation that is helped by the achievements of the former values as keys for the personality. This is similar to the last level of the hierarchy of Maslow – the

self-actualization need, integrity being the fulfilment or actualization of the complete ethical person, who does not abate from the moral principles indifferent to the confronted situation.

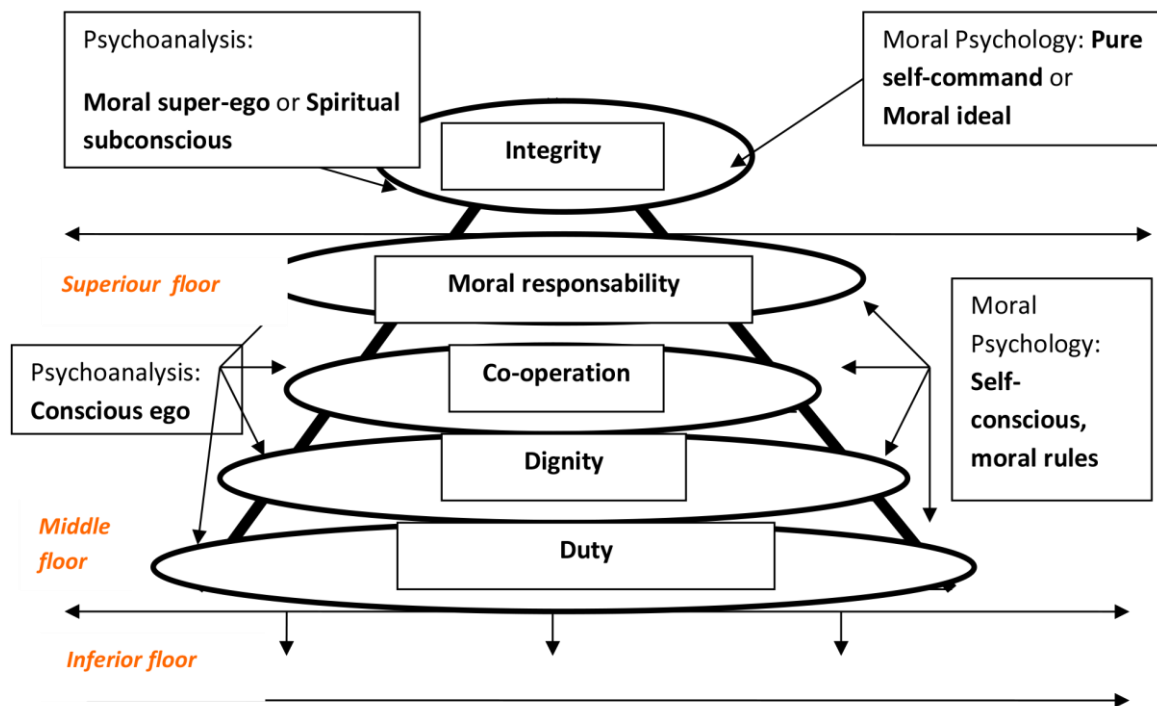
Integrity has the aspect of a permanent value, with deep roots in the human personality, being impossible to sustain that a person is incorruptible at this moment or a man of integrity and latter not. Also, it is the value that does not admit halves of level, or adaptability to the context taking into account the own interest or other ethical abnormalities. If these elements interfere in the person's habits, the social actor clearly cannot be named as being characterized by integrity, but aspirant after it. The advancement to the last level of the pyramid of ethical values is difficult and, usually, being only a level to that we aspire or tend, a level equal to ideality or ethical excellence. Besides these aspects, a complete integrity asks high professional competencies to be acquired.

Integrity can be understood as a person's capacity to discern between good and bad, where „good means the human being determination and bad, illusiveness determination” (Boirac, 1910, cited in Enachescu, 2005, p. 73). In this manner, when the concept is put into practice, without exception, the individual have to choose only the good. In this context, the presence of the moral reflection capacity and the moral values inoculation with the cognitive aspect are imperatively necessary so that the implemented behaviors of the person to be rational, not impulsively made or existing the risk to be perceived as being blunt in its manner of approach. Hence, if the other values included in the pyramid belong to the middle floor, the integrity, as a human value, can be integrated in the superior floor of the psychic assembly in relation to the conscience. This floor is „the depository of the gained, superior spontaneity of the moral values and virtues” (Enachescu, 2005, p. 73). The spiritual subconscious or the pure self-command is on this floor as the Moral Psychology proclaims, but, also, the super-ego, accordingly to Psychoanalysis. On this level, the conscious ego's acts are coordinated and censored according to moral norms (Enachescu, 2005).

Integrity is an intrinsic value, but, especially, an acquired one through the role of the individual's education and life experiences in the delineation of human personality. The events in which the individual is implied, the socio-cultural and economic context, near the two different aspects discussed earlier, form the individual's moral Super-Ego, being „the depository of the moral values continually offered by the Ego” (Enachescu, 2005). As a supreme value, the human integrity can be identified with this superior floor of Super-Ego, as a sum of acquired human values by the individual on the path of life. This superior floor adjacency is a challenge that may be attained only by the coryphaeus of ethics applied into practice, by the ones who can be given as an example in any situation of life. As it is well known, the ideality isn't a human value possible to attain, but the individuals always tend to it.

This permanent challenge is a superior level of attunement and it cannot be else than prolific equally at the individual and the general levels. Similarly, the objective of integrity, although it is almost impossible to attain, is useful to be always cultivated in the reports of labor. A social actor implied in such a report, who is always conscious, available and open to the objectives' detection and resolution from an ethical and fair (towards himself, towards belonging organization and towards society) perspective is a right-hand model, trusted to be followed and possible to be characterized as tending to integrity.

Figure 3 – The bordering of the values of the pyramid from the psychology theory perspective



Source: author's work

The empirical reality (proven by famous reports) shows that any country has a maximum score of integrity (Mulcahy, 2012) and the things evolve in the same manner when we refer to the individual level. So, individuals can have different personal ethical levels that close more or less by what is called personal integrity, but the superior limit is not possible to achieve as it also happens in the case of countries. This impossibility to get at complete integrity is also caused by the complex reality in which the individuals are implied and to which they have to brave it up. Society, in general, is in a permanent transition, the perfect equilibrium being impossible to be attained and, even more, to be

defined. This is the explanation for the fact that individual, as a piece from a whole, aborts to attain it.

It can be observed that the integrity is a concept difficult to define. In conclusion, we assume that, this ethical value is the sum of the former values which were presented in the pyramid of general ethical values: the duty, the dignity, the co-operation and the moral responsibility. This is effectual for the reports of labor (from an organization or among organizations, or between an organization and the third parties with whom the individual relates when he is on his job). These do represent the synthesis of all the general human values present and practicable in a society and with a high importance for the reports of labor. In other words, it can be concluded that, when an individual is a man of integrity on his labor, he makes his duty on his place of work in the same way as it was here defined. But with one exception: his professional competence, meaning that the individual cannot possess integrity if he does not attain the obligatory professional abilities for the achievement of the work tasks.

These aspects can be difficult determined through the adoption of the norms on the level of society or of organization wherefrom the individual belongs to. However, Verhezen reveals that more judicial regulation does not generate more integrity (Verhezen, 2010, p. 196). This measure has as direct effect the attenuation of some aberrant behaviors, but does not motivate people to be better employees. Therefore, the strategies that have as main goal the advancement of the level of its members' integrity do not have to approach only this regulation perspective, but to fathom the approach from the humanity, morality and motivation of employees' perspective. In other words, the human resources from the organization have to be seen first of all as human beings in general and, then, as the company's employees.

Conclusions

This paper analyzes, as it was discussed, in a concrete way, what integrity is as a general ethical value. The concept does not have a clear definition in the social or economic literature, integrity being imprecisely defined through the reference of other ethical values that were identified with it, or seen as a totality of all the others values, without being a palpable ethical category such as the truth, the sincerity, the courage, etc.

In this context, a clear apology of the needed faces to achieve the integrity value on the reports of work was desired to be offered on this essay so that the concept's limits to be well bounded. In other words, the paper sustains that integrity in the reports of work may not exist without another four values: ethical duty, dignity, co-operation, moral responsibility. As Andrei Plesu sustains, the real

moral competence starts with a un-hypochondriac experience of guilt, with the feeling of moral incompetence, of self-excommunication (Plesu, 2008, p. 19). Therefore, a profound understanding of the value of integrity conducts to the feeling of the necessity to also implicate the ethical part in the day by day practice from the labor sphere to a superior level. This, in its turn, determines the aspiration to tend to the accession on the discussed value, helping theoretical integrity, in this way, when the needed resources and efforts are implied, to concrete into a correct practical behavior in the economic labor market area. This proper way of action conducts to the performance of the companies that directly impacts the economic growth of a nation.

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