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THEORETICAL PERSPECTIVES ON ECONOMIC COOPERATION

Gabriel Ciprian ANDRUSEAC[*]
Iulian HERTUG[**]

Abstract: *Economic cooperation, the engine of relations of international economic cooperation, is an insufficiently defined, dynamic concept. The transformations of the international environment, globalization and the intensification of economic interdependencies render economic cooperation a must, and not just an option within international relations. Similar to the international environment, economic cooperation undergoes a process of redefinition, of adjustment to the new realities. This article aims at identifying and analyzing the approaches of economic cooperation in this context.*

Keywords: cooperation; economy; international relations
JEL Classification: F53; F55; F59; F19

Introduction

In the context of globalization, the intensification of economic interdependencies and technological development, economic cooperation, by means of all its forms, has become an “objective need” (Caraiani and Georgescu, 2013, p. 9) of economic development. Moreover, economic cooperation is identified as basic method in the approach of the problems of humanity in the international environment (environmental protection, access to natural resources, food products, unequal development, etc.).

According to O’Farrill *et al*. (1999), economic cooperation is a complex, insufficiently defined concept, generally pertaining to industrial, financial, commercial, entrepreneurial and production-related cooperation. Furthermore, economic cooperation is identified as a component of international cooperation which aims at creating conditions that facilitate the process of commercial and financial integration in the international environment by implementing actions meant to bring indirect medium- and long-term economic benefits.

In this sense, economic cooperation is not only limited to matters related to commerce, it also comprises a wide range of aspects such as industrial cooperation, research and innovation, scientific

[*] PhD Candidate, Doctoral School of Economics and Business Administration, “Alexandru Ioan Cuza” University of Iasi, Romania; e-mail: gabrielandruseac@yahoo.ro
[**] PhD Candidate, Doctoral School of Economics and Business Administration, “Alexandru Ioan Cuza” University of Iasi, Romania; e-mail: iulian.hertug@gmail.com

exchanges and the establishment of scientific and economic commissions and committees (Barston, 2014, p. 391).

1. Economic cooperation – what is it?

Caraiani and Georgescu (2013, p. 9) define economic cooperation as the form of international collaboration for the purpose of obtaining mutual advantages through the common use of financial, material and technological resources of all partners.

Caraiani and Georgescu (2013, pp. 14-15) cite Petre Tanasie (1974, p. 9) who distinguished between three dimensions of economic cooperation:

- in a wide sense;
- in a narrow sense, where international economic cooperation;
- and, in a specific field of activity.

Thus, in a wide sense, international economic cooperation is the exchange of activity in various fields and countries, and encompasses international commerce, cooperation in production, scientific and technological cooperation, international transportation, tourism, financial relations, the service domain, etc.

If we look at the international economic cooperation in a narrow sense, we can define it as a form of collaboration, between two or more countries or entities from various countries, in various ways, for the purpose of reaching certain industrial, agricultural, commercial, technical-scientific, touristic goals or other. In this sense, economic cooperation is not a commercial exchange or a mere transfer of goods, services and capitals from one country to another, but, it represents the common use of the resources and means of all partners.

The process of defining international economic cooperation, according to Caraiani and Georgescu (2013, p. 15), may be divided into three stages:

- in a first stage, economic cooperation was about the economic relation with the former colonies, which needed a totally different approach;
- the second stage refers to the conceptualization of economic cooperation as a solution for the inconsistencies in international economy, from this perspective, it was regarded as the only option to re-launch world economy;
- in the third stage, international economic cooperation was identified as “functional, pragmatic cooperation” (Caraiani and Georgescu, 2013, p. 16).

Considering the efforts made to define economic cooperation, we can assert that the defining process is a complex and dynamic one, influenced by the features of the international environment. Economic cooperation is not a unidimensional concept, it implies a multidimensional approach and, at the same time, the parties involved are many and committed to complex relations.

In this sense, we have the conceptualization of professor Albu (1995, p. 19) which surprises the complexity of the concept of economic cooperation and according to which the international economic cooperation represents bi- and multilateral relations between different actors, for the purpose of obtaining common results, better than the sum of single ones, through the accomplishment, via many efforts and on contractual basis, of activities connected to it (in the field of production, research, technological transfer, commerce and services).

The development of the process of economic cooperation emphasizes the movement from isolated and short-term economic actions to complex and long-term economic ones. The concept of economic cooperation may be identified both at the microeconomic and macroeconomic level. The two types of cooperation share in common not only similitudes, but also differences. Both types are based on the principles of international law, involve the independence of the parties and complex economic relations (Galaju and Tofan, 2010, pp. 117-8).

Furthermore, Mircea Malita (1975) claimed that “when all major factors and long-term advantages are examined, cooperation remains the only rational way for all partners, and the most profitable. At the same time, cooperation is not a naïve term, it designs a scientifically founded behaviour which is also viable from a political point of view, a must for the organic increase of the world system.”

2. Economic cooperation and the international system

In its turn, the theory of international relations identifies two different representations of economic cooperation, the realistic and liberal one. From the perspective of the realistic approach, in an international system characterised by “anarchical hierarchy”, economic cooperation is facilitated by the existence of a “hegemonic leadership”. From the perspective of liberals, the role of the state is to protect the market and economic freedom by the provision of services which are not available in the private sector. Within international economy where there is no such formal framework of protection, states should cooperate to form such a framework. (Siitonen, 1990, pp. 21-5) This is how international economic institutions rose and their purpose was to ensure the good running of activities in institutional economy.

With respect to the dispute between the realists and the liberals on the role of relative gains within economic cooperation, Liberman (1996) showed that the multipolarity of the international system makes the problematic of relative gains within commercial relations between rival powers low. In this sense, he presents the German-English relations between 1890 and 1914 and the USA-Japanese ones between 1931 and 941, respectively, because they only restricted commerce the moment before the war outbreak. However, at the same time, the author underlines the importance of relative gains in a bipolar system when economic gains may turn into military power as in the case of Cold War, when the United States restricted commerce with Russia in the 1950s and 1960s. Snidal (1991) also agrees, showing that there is the possibility of development of cooperation even in an environment concerned with relative gains.

However, cooperation is not a simple process, it incurs costs and sometimes returns may not be as profitable as the resources involved. Political costs of international cooperation in the field of fiscal policies are high, hence their rarity, internal pressures of interest groups and commercial unions adding to the international ones. Moreover, the neglect of the internal dimension may lead to weaker results than the lack of international cooperation as proved by Rogoff in a 1985 study. Furthermore, cooperation may cause undesirable effects for all those involved in a situation that is unclear to decision makers in terms of the running of its economic systems (Frankel and Rockett, 1988). However, the presence of cooperation should be an aim to be reached in an environment in which economic interdependencies are stronger than ever, the isolation and failure of cooperation jeopardising the development and even survival in this environment (Nelson, 2014, xxii).

The internal dimension cannot be neglected in the analysis of international cooperation; consequently, the concerns of states with internal problems may determine a more difficult, intransigent attitude with respect to the negotiation of international economic cooperation. The result would be the positing in a vicious circle, in which the premises of economic cooperation would diminish and the ones of conflict would increase. Yet, the identification and eradication of sources that fuel the conflict may turn cooperation initiatives into means of achieving national aims and not obstacles in their path (Frieden, 2009, p. 9).

In addition, economic cooperation according to Smith (2004, p. 4) facilitates the reduction of conflicts and the creation of a stable environment by indirectly promoting political reconciliation, stability and cooperation as in the case of Europe after World War Two. Regional cooperation, by means of intense economic cooperation, facilitated not just the reconstruction of Europe after World War Two, but also long-term prosperity which led to the instauration of a stability and security system which seemed untouchable for a Europe tormented by conflicts (Martin, 1999, p. 377). Moreover, in the context of the new geopolitical realities, the bilateral and regional relations of economic cooperation built a strategic orientation in the promotion of security, in the lack of consolidating new security alliances (Barston, 2014, p. 253). Sonu (pp. 301-2) feels that the idea of regional economic cooperation affords the states to overcome the constraints pertaining to the relatively small dimension of their market and the low purchasing power in their economy, as well as conflict diminution.

Conclusions

As can be seen, economic cooperation implies a synergic process which comprises various areas of interest, does not exclude the bilateral relations from the multilateral ones and aims at obtaining results that would have been unreachable, had the approach been individual. Cooperation is made in an organized framework, with clear rules that include both the macroeconomic and the microeconomic one. In the context of globalization and international economic integration, economic cooperation tackles not only the relations between states, but also the ones between them and governmental and non-governmental organisms involved in international economic relations. However, economic cooperation remains an ambiguous concept despite the development and increase of its importance in international relations.

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UNCERTAINTY IN NEOCLASSICAL AND KEYNESIAN THEORETICAL APPROACHES: A BEHAVIOURAL PERSPECTIVE

Sinziana BALTATESCU*

Abstract: *The "mainstream" neoclassical assumptions about human economic behavior are currently challenged by both behavioural researches on human behaviour and other theoretical approaches which, in the context of the recent economic and financial crisis find arguments to reinforce their theoretical statements. The neoclassical "perfect rationality" assumption is most criticized and provokes the mainstream theoretical approach to efforts of revisiting the theoretical framework in order to re-state the economic models validity. Uncertainty seems, in this context, to be the concept that allows other theoretical approaches to take into consideration a more realistic individual from the psychological perspective. This paper is trying to present a comparison between the neoclassical and Keynesian approach of the uncertainty, considering the behavioural arguments and challenges addressed to the mainstream theory.*

Keywords: Neoclassical approach; Keynesian approach; uncertainty; bounded rationality; behavioural economics

JEL Classification: B310; D03

Introduction

The economic reality of the recent financial crisis created a prolific theoretical debate space for the traditional economic theoretical approaches, in which both the mainstream, neoclassical approach or the Keynesian and post Keynesian, Austrian or institutionalist approaches restated their doctrinary positions and arguments. The mainstream economic theory confrontation with the particularities of the 2007 economic crisis was highlighted by behavioral voices which questionned the main assumptions of the neoclassical theory (see Angner and Loewenstein, 2012); these challenges determined an effort of theoretical and methodological consolidation of the mainstream theory – an effort that was made from within the mainstream theoretical framework, without endangering the theoretical foundation of the approach.

The major theoretical approaches use, in explaining the economic crisis mechanisms, psychological assumptions on the behaviour of the economic individual. The main positions are focusing on the way in which economic individual agents are basing their economic decisions of consumption, production or investment.

The mainstream, neoclassical theoretical approach excludes uncertainty from the analysis. The theoretical framework and the perfect rationality of the economic individual assumption do not permit

* Lecturer, PhD, Faculty of Economics and Business Administration, Al. I. Cuza University of Iasi, Romania

the neoclassical theoretical approach to formalize uncertainty. Actually, uncertainty, defined as the situation in which nothing is or can be known about the future allows the possibility that the individual cannot choose but irrationally in such a context, in neoclassical terms: without complete and perfect information.

The uncertainty “threatens” the theoretical framework of the neoclassical approach from within and, in the economic crisis of 2007 context, researchers from other economic approaches, especially Keynesian and postkeynesian, but also institutionalists find space for re-affirm their theoretical and doctrinary positions using the argument that these theoretical approaches consider uncertainty as a starting assumption, not as a consequence of the lack of complete information.

The link between economic development results and institutions and individual behaviour is no longer a subject of debate in institutionalist`s view; considering realistic psychological elements in their view of institutions is inherent to this theoretical approach that considers an individual that matches reality as a bearer of economic decision instead of the idealistic individual that should act on economic grounds (see Tiganas *et al*., 2014, p. 94 for factors that link the development results to institutions, institutional results, individual behaviour).

Incorporating uncertainty in Keynesian theory and postkeynesian perspective on economic crisis meant stating intuitive psychological issues on the irrational individual behaviour, based on direct observation. The optimistic or pessimistic expectations of economic agents about an uncertain future which influences or not their investment decisions based on conventions and trust in Keynesian view were the first factors that shaped Minsky’s approach on economic crisis. His view on economic cycle as being inherent to the capitalist system was also founded on psychological insights on individual behavior on markets and on expectations confirmed or supported by the market evolution.

From neoclassical perspective, the economy is a system free of uncertainty; uncertainty; the market and economic evolution can be described by economic laws, always tends toward stable equilibrium and has the potential for continuous growth. Therefore, the economic crisis are not caused by market errors, but by interference of irrational behaviour into the market mechanisms; usually, these interferences are caused but government intervention.

The theoretical effort and analysis of the Keynesian and postkeynesian economists are fundamentally economic but start from the assumption of a more psychologically realistic individual. In the context of the 2007 economic crisis and given the theoretical accumulation of behavioural economics researches, their theories gain new connotations and new arguments which sustain them.

1. Uncertainty and risk in Keynesian theoretical approach

Uncertainty is a key element of the Keynesian and postkeynesian theoretical approach; it represents the starting assumption on which the theoretical foundation of the approach is built. Because of the certainty of uncertainty, individuals create expectations on which they decide investing or not; in the empty space left by uncertainty, individuals place expectations based on subjective psychological judgements.

In Keynesian view, money is not neutral and there is a strong connexion between uncertainty and money. They have special characteristics among other goods: their role of exchange mean and store of wealth cover the gap left by uncertainty. In uncertainty conditions, money provide security and this form of psychologically based certainty of economic individual agents determines specific behaviour which modifies the market dynamics. Thus, in an environment dominated by uncertainty, the certainty of safety investment of money leads to increases in individual liquidity preference instead of leading towards demanding and buying more labour intensive goods. Retaining the money or the highly liquid goods leads to diminishes in the effective demand, which results in unemployment. In other words, economic crisis are inevitable and caused by the store of wealth role of money.

In Keynesian view uncertainty is different from risk. When the probability of some event to appear is known, the act of economic decision is called upon in risk conditions. In this situation, knowing the different probability distributions of possible options, the economic decision can be the subject of a mathematical optimization process like the one developped by the mainstream theory. Uncertainty is, yet, the situation in which the probability distribution is not known (Ferrari-Filho and Conceicao, 2005, p. 582). The information necessary in order to build an optimal investment decisions simply does not exist, so that scenario cannot have a probability distribution, therefore the decisions can be neither modelled or subject for a process dominated by rationality (Crotty, 1993, p. 4).

Thus, in the process of taking an economic decision a gap appears, empty of rationality, but dominated by uncertainty. In this gap mathematical modelling is not possible anymore because of the lack of knowledge and measurable facts on which realistic predictions can be made. The mainstream neoclassical approach disregards this gap; the theoretical framework does not permit the existence of this gap. In this area the irrational heuristics appear and represent the common place between economics and psychology. The existence of uncertainty as described by the Keynesian view, permitted the behavioural economists to state their ideas, eroding the neoclassical assumptions and offering grounds for other theoretical approaches to consolidate their hypothesis.

In this space, void of rationality as the neoclassical approach understands it, Keynes places the feeling of trust in the public opinion an institutions, the intuition, the confidence (”the animal spirits”). Taking an economic decision, in these circumstances, is not anymore an act based on deductions from facts and dates, but on conventions which become a partial solution to the uncertainty that dominates the decision making process.

In neoclassical view, deciding to invest in uncertainty conditions is an irrational act. Yet, economic reality proves that economic agents make that decision and the Keynesian theory of investment leads toward the idea that only providing enough information for the uncertainty to transform into quantified certainty may not be enough to make the decision rational and to provide predictable results. There are circumstances in which there are no ways to transform uncertainty into certainty and the individuals must make decisions in a priori uncertainty conditions. In the rational decision making process, the decision is based on past experiences and theoretical knowledge; they represent knowledge about the past that allow us to make predictions about the future. Yet, knowledge is not enough to guide the economic action of individuals faced with an uncertain future and the mainstream theoretical approach methods do not have the necessary instruments to explain why a set of expectations transforms the market euphoria into market fear, modifying economic agents behaviour (Dow, 2012, p. 85).

One convention as extrapolating future from the past provides confidence in the optimistic scenarios that the economic agents are creating and on which they base their expectations about the future; on their turn, the expectations about the future create economic action into the present, modifying the market situation and generating dynamic changes in future expectations of individuals. Conventions create, thus, the feeling of confidence that the formed expectations have a high level of meaning and relevance.

Positive expectations about the continuous increase in prices and the permanence of financial stability were identified as factors that sustained the economic and financial crisis of 2007. From within the mainstream theoretical approach, these expectations are irrational and can be explained by the lack of perfect information or conditions that should allow the perfect competition to manifest. Yet, efforts of providing conditions for the perfect competition did not result into avoiding the economic crisis and did not eliminate the uncertainty from the markets. In this context, many researchers, especially those in the field of behavioural economics consider that the neoclassical theory cannot provide a satisfactory answer about what triggers the rational behaviour which should avoid the economic crisis.

The market evolution from euphoria to fear and the consequent change in behaviour is not thoroughly explained in neoclassical theory. On the other hand, Keynes psychological insights on which the investment theory are based like uncertainty permanence, conventions and ”animal spirits” seem to be capable of explaining the recent economic crisis and to offer ground for a better understanding of economic mechanisms in general.

2. Uncertainty vs rationality in the neoclassical theoretical approach

The reproach addressed to the mainstream theoretical approach is that it is limited in defining the concept of rationality and that it excessively uses the deductive method and the mathematical apparatus in order to model an economic reality in which feelings and emotions are excluded from the decision making process (see Camerer and Loewenstein, 2004, p. 2). The behavioural economics challenges that questioned the perfect rationality assumption and stressed that economic decision is mostly made with imperfect information lead to attempts of reconsolidating the neoclassical assumptions from within the same theoretical framework, with the same instruments and methods.

These attempts had as an effect the effort of conceptualising from the psychology through behavioural contributions. Sheila Dow suggests that, in an effort of incorporating psychological elements into the formal existing framework of rational choice theory, this conceptualization process was constrained by the formal theoretical framework to categorize irrational behaviour as cognitive limitations or unconventional preferences (Dow, 2012, p. 83). On a normative level, the focus remained on reducing the impact of such cognitive limitations by ensuring the market transparency.

Such a transformation involves modelling the reality in order to match the theoretical approach instead of viceversa. Although the basic assumptions were modified, the mainstream approach remains firm in excluding the uncertainty as a starting hypothesis. The Keynesian and postkeynesian approach of economic crisis is leaning on the uncertainty assumption in building its arguments.

The neoclassical theoretical approach has the advantage of clarity and also of a normative level that naturally results from the theoretical infrastructure. The Keynesian approach, on the other hand, seems to explain better the economic mechanisms and the decision processes, but the uncertainty as a starting assumption leaves the economic policy with fewer instruments.

As Keynes himself suggests, “… some coordinated act of intelligent judgment is required as to the scale on which it is desirable that the community as a whole should save, the scale on which these savings should go abroad in the form of foreign investments, and whether the present organization of the investment market distributes savings along the most nationally productive channels. I do not think that these matters should be left entirely to the chances of private judgment and private profits, as they are at present" (Keynes, 1926). What guarantees that the state, as an agent that acts on the market and in the market has the capacity of rationing in uncertainty conditions is not, yet, clear enough.

After all, with uncertainty as a starting assumption, the government economic decision would be as based on conventions and emotions as the individual one; influencing the interest rate or the marginal propensity to consume would be decisions still made on optimistic or pessimistic expectations of the government on the future. What would, then, guarantee the rationality of the government decision?

Of course, the keynesian theoretical approach was built in the first half of the XXth century. To reconsider the theoretical foundations in the context of the recent economic and financial crisis by taking into consideration the behavioral economics contributions (see Szyszka, 2010) could result into a more coherent normative level for the keynesian theory. Considering market sentiments could lead to building mechanisms and institutions that could monitor these sentiments; this could result into monetary policies that could weight the market sentiments if they would not be correlated with the reality (Dow, 2012, p. 86).

The theory of rational choice, based on the neoclassical theory is, so, limited by the narrow definition of rationality, as an act that implies only cognitive processes and no emotions. Sheila Dow states that thinkers like Keynes, Adam Smith, David Hume etc. do not exclude the link between cognition and emotion, on the contrary, they consider it as a psychological reality of economic decision making (Dow, 2012, p. 84).

Conclusions

Leaving the normative debates aside, the keynesian theory integrates psychological elements of the individual that acts as an economic agent that the mainstream theory does not consider. Uncertainty is the general case, not the exception, the economic decision is made in markets with assymetric information, institutions are invested with trust in order to function, confidence determines fluctuations of the liquidity preference: these are just few elements that stress the role of the psychological insights of keynesian theory, also common to the institutionalist approach.

In either keynesian or institutionalist theoretical approaches, uncertainty exists and matters and this places these approaches in a different position as opposed to the mainstream theory. Considering the factors that determine the economic decision in uncertainty conditions created a niche where the behavioral economists found space to manifest theories and ideas by inserting psychological elements into economic theories.

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THE QUALITY OF CULTURAL SERVICES IN THE GLOBAL ECONOMIC CRISIS CONTEXT

Aurica DVORACIC*

Abstract: *It suffices to browse the websites of only a few of the most noteworthy Romanian cultural organizations – including the website of the Ministry of Culture – to conclude that quality policies are missing. In fact, these are not the only policies that are missing, but this topic should be discussed in another paper. The objective of this paper is to analyze the progresses and the opportunities, as well as the problems and the challenges that the Romanian society and economy are facing as far as culture is concerned at the beginning of the new millennium, in the particular context of the global economic crisis: specifically, we will focus on the role of cultural organization managers in implementing quality management as the main factor in assuring the competitiveness needed to overcome the crisis. Cultural organization managers generally admit that a change is needed in order to cope with competitive pressure, but few understand how this change should be implemented. To avoid the issues associated with "change programs", the management of cultural organizations must focus on the structure of processes, recognizing the roles and responsibilities of their employees in the processes in which they are involved.*

Keywords: quality management; culture; cultural organizations; consumer; cultural services; competitiveness; global economic crisis
JEL Classification: G01; Z19

1. Defining service quality in general and cultural service quality in particular

Concerns about service quality are far more recent (20-30 years) than the concerns regarding product quality (more than 100 years). Many of the specific aspects of product quality can be adapted to service quality, with certain particularities, since services are immaterial goods. Most economists think of services as a system of utilities where the beneficiaries purchase or use not a good, but a certain utility, which provides them certain advantages or satisfactions that cannot be turned, in most cases, into tangible goods and are destined to satisfy certain personal, social or cultural needs.

The American Marketing Association (1960) defines services as *activities, benefits, or utilities offered on the market or provided in association with the sale of a material good*. This definition points out to the notion of activity as an essential component of services. Moreover, it includes the commercial services provided in association with the sale of a material good in the general field of services. K. J. Blois (1974) defines services as *any activity that provides benefits without necessarily*

* Ph.D. Student, Doctoral School of Economics and Business Administration, Alexandru Ioan Cuza University of Iasi, Romania, e-mail: delsole5@yahoo.it. Special acknowledgment to the feedback received for the elaboration of this paper during the participation to the 14th CCF conference - *Quality and Dependability*, 17th-19th of September, 2014. Sinaia, Romania.

involving an exchange of tangible goods. Though incomplete, this definition points out to another characteristic of services: intangibility. Kotler *et al.* (2015) states that a service is *any activity (or benefit) that a person can give another person and which is essentially intangible and does not result in an ownership of something.*

All the above definitions concern services as a whole and point out the elements that distinguish them from goods. Let us now see how the experts in cultural management define cultural services.

Maria Moldoveanu and Ioan-Franc Valeriu (1997, p. 20) define cultural services as activities provided to the benefit of culture consumers, with our without their direct participation, in order to meet certain needs and produce the satisfactions that they expect.

Cultural services are a distinct category of services. Their quality is exclusively evaluated by the consumers and only after the service has been provided. They purchase such services before they perceive their value. A material good is self-defined, while a service is not (Olteanu and Cetina, 1994, p. 36).

Consumers are the ones who "define" the service. Initially, they lack sufficient information about its value. For instance, information about the artists who will perform in a show, about pricing or other sale facilities, or about advertising messages will help shape a first perception of the service; but this perception in no way guarantees a fair evaluation of the cultural service. This is why "intangibility" and "inseparability" define these services to a large extent.

By the content of the services provided and by the means used to provide them, cultural services are thus classified (Moldoveanu and Ioan-Franc, 1997, p. 50):

1. Performing arts: theater, film, music, dance, arts ensembles, festivals;
2. Fine arts: art galleries and exhibitions, private collections, handicrafts;
3. Cultural creations provided through specific media and specialized distribution services:
    - film, film studios, movie theaters, film societies
    - books, magazines, publishing houses, book fairs and exhibitions, public library services;
    - art photography;
    - audio-video cassettes and discs.
4. The formal system that promotes culture in communities: libraries, museums, theaters, concert halls and symphony orchestras, opera houses, community cultural centers, agencies specialized in cultural tourism.
5. Mass-media, together with the technical means for the reception, creation and broadcast of the messages: written press, radio, television, press agencies, studios, newsrooms, distribution networks.

By the nature of their relation to the cultural products, cultural services are divided in:

- services that distribute cultural creations: editorial services, public libraries, museum services;
- services that create culture themselves: theater-for-television services, film production, music performances.

By the consumers' degree of participation:

- services that cannot be provided in the absence of consumers: live performances, book fairs;
- services that do not require the consumers' participation, although the audience is an influencing factor: editorial activities, art exhibitions, radio broadcasts.

Cultural services can be further set apart using criteria such as: markets, distribution, cost effectiveness, comprehensibility of value standards, persuasion ability.

Regardless of the content of the services and of the nature of the means used to provide them, they deliver information, knowledge, values, symbols, models and ideals meant to satisfy a variety of human needs:

- need for knowledge/information;
- need for action and participation;
- need for control of one's context;
- need for self-realization, for self-assertion and for social prestige;
- need for justice;
- need for security;
- other psychological needs such as the need for imagination, for escape from one's everyday environment etc.

The growing demand for culture and the diversification of the types of services call for the implementation of the service quality management system, according to the ISO 9001: 2008 standard, which establishes the requirements for the quality management system in all fields. So, in order to certify the quality management of a cultural organization, these requirements will have to be met.

Implementing quality management involves a complex of procedures and management practices that imply mobilizing the stakeholders of a community towards satisfying the needs and expectations of the cultural services' users. This requires indisputable skills and extensive organizing abilities from managers.

Quality management in cultural organizations implies a managerial state of mind and conduct that are open to initiatives and value innovation, as well as an ethical grouping of services in the improvement process that is about to be achieved. And this can be accomplished, above all, (especially in public libraries, documentation centers and archives) with the help of technology, especially new technologies that allow the amassment of information and knowledge, the accessibility of information and a high-quality communication. These tools will help managers to dedicate themselves to developing human resources and to optimizing the skills of their teams.

Therefore, the managerial method for implementing quality will be evaluated as a result of the ability to articulate the skills, the collective knowledge and the existing cooperation networks. The effectiveness of these internal connections derives from the manager’s ability to appropriately organize and schedule the work of his teams while agreeing to increase the autonomy of his employees. The higher the responsibilities given to teams, the easier it will be for each service to achieve its political, administrative and financial objectives.

However, let us consider the rigidness of the organizational system that currently exists in most communities, the strong hierarchical backbone of professional relationships, the far too centralized management approach, the *status* already earned by managers to the detriment of efficiency, the concepts of work ethics that apply to the many employees; all these act as strong hindrances in developing human resources and skills. Moreover, they cause the manager of a territorial cultural agency to develop a strong frustration due to his perception that the collective values of the public service that he runs suffer from exclusion. More often than not, this leads to a strong lack of motivation in the teams of the cultural sectors, teams whose experiences, origins, skills and individual values are extremely diverse and very particular.

We cannot simply decree the autonomy of a cultural sector employee or of a team from a cultural organization while, at the same time, continuing to enforce and to control – in an inflexible, rigid and authoritarian way – how they perform their tasks.

Efficient management is when managers let themselves innovate and are dedicated to their work beyond the organization’s strict rules and the specific operations involved by their office. Leaving room for maneuver and encouraging employees to take initiatives and responsibilities favors the full expression of their abilities, aptitudes, knowledge and skills, as well as long-term continuity, which is a valuable aid for managers in accomplishing their tasks.

Managers can achieve genuine control of the cultural activity only when they are result-oriented and focused on achieving objectives that have been clearly communicated and explained. To that end, cultural organizations need flexibility – especially in cultural programming – to prevent the atrophy of employee initiative and motivation.

However, with a highly authoritarian management culture, it seems difficult nowadays to favor initiative and the development of those skills required by teams to pursue their goals and the ethical values of quality with dedication. Unfortunately, in culture, the beginning of the new millennium finds us with very low levels of training and education (continuing and/or initial) as far as cultural management is concerned.

In the long run, these deficiencies usually result in cultural organizations which have a very rigid structure, are highly bureaucratic and manage human resources like they do any other administrative task. While such management practices are still very much alive in many communities, for the past few years we have witnessed a strong political and administrative will at work, encouraging the transition to a genuine modern management of the quality policy in cultural organizations.

Acting autonomously does not mean not getting help when one needs help. Management's duty is to support individual and collective training efforts and participation, to identify deviations and skill deficiencies, and to assess and validate each employee's significant contributions. This line of development is incompatible with an authoritarian management that does not leave room for negotiation, debate, dialogue and for changes and readjustments that need to be undertaken by the entire organization. Before allowing employees to act autonomously, management must start to delegate and become associative.

Among the major responsibilities of managers are the continuous development of their own skills and of the skills of their employees, the motivation of the teams and the mobilization of team members towards reaching their objectives.

Managers will seek to rally employee representatives around a number of common objectives, thus establishing a common language. Efficient interpersonal communication within the cultural organization is of the essence. And, if this is complemented with a high-quality human resources policy – which will help build real strongholds by employing the right middle and proximity managers in the first line of action – that cultural organization will have yet another invaluable asset.

2. Quality management in the cultural organization

Quality management in the cultural organization will prevail if it is not looked upon as a simple decision relay. Its role is a strategic one. Faced with implementation difficulties, quality management needs extensive room for maneuver.

As far as managers are concerned, they need to delegate more decision-making power to their team members, allowing them to realistically identify the performance indicators, to reward and, finally, to confirm the skills of the organization members.

Briefly put, management is responsible to arbitrate and prioritize, after using processes of consultation and guiding, in order to facilitate the standardization and recording of professional practices, the establishing of differential diagnoses and the analysis of the dysfunctions and problems that arise in a management dynamic aimed at enduring progress. Finally, skill evaluation cannot be unilateral – skills must be validated by peers and, of course, by superiors. This is based on the comparison between the means provided by the organization and the means mobilized by the employee of the cultural sector. To this end, the evaluation requires a clear definition of the responsibility areas and of the room for maneuver each employee is given in order to explore and evolve.

It is imperative that management be aware of the skills, abilities and aspirations of each employee from the cultural sectors in order to be able to design, in the medium term, a human resources policy that will take into consideration the evolution of the markets, the new technologies, as well as the “users”’ expectations regarding the cultural offer on a local, regional, central or even global scale.

The personalized and distinctive nature of skills calls for the redefining of the forms of appreciation and recognition, especially in terms of compensation, employment and workforce contribution. This will make the necessary difference by creating a management leverage that will take into account each employee’s real effort.

It is equally imperative to shift from a purely administrative management of personnel to an actual human resources management. This step requires the rethinking not only of the employee’s status, but also of the labor legislation and of the existing logic of compensation.

Measuring, ranking and equitably evaluating employees’ output in order to compensate them for their efforts means reviewing the place and the attributes of the administrative function of the workforce in the entire public cultural sector. This activity, which implies several responsibilities, has to do especially with favoring/rewarding individual initiative and requires a much higher degree of professionalism from the local HR function in order to increase the accuracy of the assessment of the teams’ technical assets. This type of activity is shared with superiors, especially with middle managers whose proximity to and understanding of the lower employees’ actual problems are essential in developing their skills.

While promoting the tools of human resources management, HR specialists must also make sure they design the policies of skill development and the evaluation criteria that best fit the cultural field and the latest changes in its professions. This is all the more so since the logic of skill management encompasses: analyzing the cultural organization’s mission and activities, writing the job descriptions, creating coherent candidate profiles and identifying the skills inseparably required by each position, while also keeping in mind the constant evaluation of collective and individual skills. The key to objectively identifying the skills required for a project to be successful is the thorough analysis of the actual everyday work of the teams involved in the cultural sectors.

It is necessary to part with today's purely administrative management of personnel, which is focused exclusively on recruitment, compensation and conflict management. For this, it is important to identify new performance indicators that are much more competitive and are more adapted to the changes of the economic systems as far as human resources management is concerned. Transferred to cultural organizations, human resources management will empower HR professionals to dedicate themselves to identifying, monitoring and evaluating skills.

3. The annual report – a new management tool in cultural services

The die is cast! No time to waste! The end of the year is near… This is undoubtedly the time for the unavoidable budget arbitrations, the team evaluation meetings and the result appraisals for the actions run during the year. Far too seldom is it also the time to synchronize the inevitable prospects for the coming year between ourselves, our elected officials and our teams…

The evolution of new technologies, the multitude of regulations and a tense economic context are pressuring cultural services, now more than ever, to permanently adopt a logic of innovation in order to survive in an increasingly difficult and complex environment. To cope with these pressures that weaken our activity, we must become aware of our invaluable asset: human potential. Sadly though, it seems that our so-called management "tactics" make us drift aimlessly quite often.

Indeed, more and more often, we seem to be separated from our teams. Few are the managers who would be able to achieve, as far as participatory management is concerned, something the likes of an annual report – a document that should be enriched with a well-founded set of clearly-defined, relevant indicators that would serve the evaluation process. The annual report should also help build the identity of each team and stimulate each employee to continually improve their skills. It is an important element in the integration of all employees from no matter what cultural sector into the global project of their organizational structure, where they should be able to act effectively and should be given perceivable and achievable objectives that make sense in the complex local landscape that they very familiar with.

In the current economic landscape, cultural services are faced with powerful constraints: minimizing expenditure, optimizing human, financial and material resources, quality and evaluation requirements… All these factors require culture professionals to permanently adapt in order to be able to improve the services provided to various audience categories.

Thus, among the structural evolutions needed in our management methods, it goes without saying that we must show not only initiative, but also creativity. We need to be able to adhere, with our teams, to a dynamic of change, a change that demands that we take our management practices out of their isolation and that we seek employee involvement and participation more and more, so that our staff may fully take on the mission of the public cultural service: to meet the population's cultural needs in an optimum way and in the long term. To do that, we must be able to inform, together with our teams, for the entire duration of the year, to show homogenous and coherent indicators that are easy to follow and to assess, and to evaluate every cultural action on our agenda. However, few are the teams who can effectively combine these valuable guiding tools that give meaning, visibility and purpose to their actions – and who are also able to give a report.

It would be interesting to learn why so many cultural services fail to seek inspiration in this invaluable management tool. Is it the lack of time? The lack of skill? Or is it maybe the fear of failure? Sometimes, the lack of transparency can create an illusion of *comfort*. This may help conceal certain deficiencies and dilute our responsibility for our own disappointments and defeats.

It is not always easy to change our usual work methods for new ones that involve more sharing, more delegating and far better representation and visibility of our management skills. During crises, our conception of management should feel strengthened with values such as active listening and respect. More succinctly put, we must take on a new result-focused culture that will redefine our management practices in the public cultural service.

The annual report can prove to be not only a viable management tool, but also an efficient test of our skills. It is an essential asset for a new type of management approach – participatory management, which motivates teams and contains the essence itself of quality management. This requirement – as seen today in public libraries – tends to spread to the whole spectrum of cultural services and has become a legal and regulated requirement. This shows us the importance that we must attach to our ability to anticipate from now on.

4. Certifying the quality of the cultural offer management

During these years of deep crisis, when most of our fellow countrymen are going through a hard time, it is no longer possible to manage cultural sectors like an amateur i.e. without implementing efficient and effective management practices. Moreover, during this time of the year, when the services of the cultural organization are carefully building the first draft of its primitive budget, improving management practices becomes urgent.

Managing public money responsibly means understanding that each of our actions has a cost and that financing is not unlimited, like it used to be. This does not mean that our services to users will sacrifice quality to fit the budget. But going over the budget means unhappy users. This equation is all the more unacceptable in that going over the budget is done by investing unreasonably much in one user, at the expense of another user, whom we simply ignored.

Fortunately, more and more culture professionals share the willingness to implement an efficient and effective management style. However, in order to be able to provide quality cultural services while saving money at the same time, we must choose a management style where we feel responsible both for the excesses and for the hassles that come with the job. To be able to take on this responsibility, we should change our mentality and acquire management notions that we currently lack. It is a far more exciting objective than always lamenting about how politics prevents us from providing quality services to users and how… no user has ever died from subpar services so far.

So much remains to be done that one can easily get dizzy thinking about it: we must double our efforts in negotiating every contract, every menial service, every sheet of paper… We must always seek to make the transition from the public markets to procedures for… everything; and in very particular ways.

So when will we, as managers of cultural organizations, finally become involved in an authentic search for quality certification of our management practices, which we will then use to evaluate our financial methods and cut costs? To achieve the certification of our management practices, it is not necessary to behave like snipers or to become engulfed in an exhausting, solitary and isolated quest; on the contrary, we must initiate a team activity whose results depend on how much each member of the team feels responsible and involved in attaining the common goal.

Sooner or later, together with the members of the organization, we will have to address and solve the problems that affect us. We will also have to penalize every abuse in the system on the spot; to acknowledge and to accept, without feeling embarrassed, the fact that we are not ready to work in this way yet. We will have to accept a major change in order to manage the inevitable reforms that are coming our way. Better anticipate them!

For what is expected of us after a long period of management? To evaluate each of our practices, to validate them, to make adjustments in the vast array of cultural services that we offer our users every day. We also need to establish, using objective, measurable and well-calibrated criteria, a maximum cost that we may not exceed.

To achieve all of the above, do we not need to accept specific training? Do we not need to work closely with our colleagues? Why would we find all this demeaning? Step by step, the lines are moving slowly but surely. Mentalities are progressively changing. Let us not forget that this is a change, not an upheaval; an evolution, not a revolution.

Conclusions

In conclusion, it is important that we dismiss the ultimatum that our elected officials keep giving us every day ("Do more with less!"), which we would find offending if we did not have a sense of humor! Instead, let us focus on moving forward. To do that, I imagine we need to build a plan of operations that intertwine and continue one another at the same time. Improving processes in the cultural organization will depend on this structure – and quality will result from this improvement. Every stage in the process, which we will not only have to build from scratch, but also standardize, will require evaluation, which, in turn, will require criteria. If criteria are not established accurately, the entire structure may crumble. So these quality criteria are the foundation of our mission. In the end, these quality objectives will need to be rethought and confronted with other experiences as often as possible, so as to never lose sight of… the ultimate requirement. For, in the cultural sector too, project management will need to decide, sooner or later, to move to the certification of its processes, which will increase the quality of the management of the services provided to the audiences and will, obviously, act as a guarantee of our professionalism.

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THE RELATIONS BETWEEN THE EUROPEAN UNION AND THE RUSSIAN FEDERATION PRIOR AND AFTER THE CREATION OF THE COMMON ECONOMIC SPACE

Razvan-Alexandru GENTIMIR*

Abstract: *Due to its geographical position and its cultural links, Russia has always had a special relation with Europe. In its attempt to shape its own place on the global stage, the Russian Federation has sometimes seen itself as an authentic European state, while in other cases and circumstances, it strongly supported and claimed its "Eurasian" features. Due to the enlargement of the European Union and its rise as a heavy international player, the European Union has turned into a geographical neighbor of the Russian Federation. From this perspective, it is not a surprising fact that the Russian Federation is to develop specific relations and shape a foreign policy with strategic features regarding the European Union. The institutional cooperation between the European Union and the Russian Federation aims at shaping a series of common objectives regarding the relations between the two sides and defining the actions needed in order to reach the proposed objectives, the implementation of the common projects considering the agreed order of priorities.*

Keywords: Russian Federation; European Union; international stage; international player; cooperation; objectives

JEL Classification: F00; F15; F36; F42; F50

Introduction

The institutional cooperation between the European Union and the Russian Federation has a unique feature provided by the institutional cooperation activities, which represent the results of the continuous dialogue between the Russian Federation and the European Union, which ensures a feeling of partnership and deep involvement from both sides. The bilateral relations between the European Union and the Russian Federation went through a continuous evolution of the common activities, which also reflect the internal development of the European Union from an economic community towards a politic union, founded on three pillars of economic cooperation, a foreign policy and common security and the cooperation regarding the internal security and business. It evolved gradually and is now seen and organized on "four economic spaces":

- A Common economic space
- A Common Space on Freedom, Security and Justice
- A Common Space of External Security

* Alexandru Ioan Cuza University of Iasi, Doctoral School of Economics and Business Administration, Romania, e-mail: gentimir_razvan_alexandru@yahoo.com

- A Common Space on Research and Development, Education and Culture

The conceptual history of the four economic spaces describes the way the relations between the European Union and the Russian Federation developed and evolved. Germany and France came with the idea. They proposed it to the European Commission and to the other member states of the European Union and to the Russian Federation as well. It was then formally adopted at the European Union – Russian Federation Summit in Sankt Petersburg, in the month of May 2003, in order to be operationally implemented since 2005, with the cooperation activities stipulated within the common spaces having to be carried out by the member states of the European Union in a unitary manner.

The relations between the European Union and the Russian Federation prior and after the creation of the Common Economic Space

The cooperation approaches from the perspective of the Common Spaces represent an evolution of the carried out activities and of the common objectives that have been reached until now, as well as the basis of the activities that will be done in the future period. Thus, the structure of the four common spaces provides a perspective on the way the relations between the two entities evolved and on the way the future cooperation between the two ones is foreseen.

The initial cooperation between the European Union and the Russian Federation, even before the signing of the Partnership and Cooperation Agreement in 1994, has mainly focused on trading and economic issues. The European Union has always stated that one of the main objectives is to eliminate all the obstacles that stood in the way of trading and bilateral investments and to support the development of the market economy of the Russian Federation by harmonizing the legislation, through a stable regulatory framework and through the harmonization of the technical standards. For the future, one desires the development of the relations between the European Union and the Russian Federation towards an economic integration through the diversification and the growth of the trading volumes, through the development of new investment opportunities and through a collaboration in the fields of transportation, telecommunications and the transfer networks of energy resources.

In the beginning of the 2000s, the Russian Federation was at the outskirts of European integration; at the moment, there was a significant concern that the Russian Federation would me more and more excluded. Due to numerous economic, historical and political arguments, it was highly probable that the new member states to favor a more drastic approach of the European Union regarding the Russian Federation. Moreover, the representatives of the European Union had already started relinking the economic problems of the European Union-Russian Federation dialogue to the political issues regarding democracy, human rights and the conflict in Chechnya.

Additionally, the attempts of the Russian Federation to maintain its influence on the member states of the Commonwealth of Independent States and the shaping of an economic and political integration level of the member states of the Commonwealth of Independent States could have led to a possible conflict with the European Union regarding the compatibility issue between the EU integrated Russian Federation and the integration of the member states of the Commonwealth of Independent States.

In spite of this issues, the Common Economic Space represents a significant part of the official conceptual framework, whose objectives is to deepen, as much as possible, the economic relations between the European Union and the Russian Federation, with different links towards other cooperation fields. The analysis of the conceptual framework and of the way it evolved could represent an understanding method of the nature and the perspectives of the relations between the European Union and the Russian Federation. The Definition of the Common Economic Space is provided by the Conceptual Document. Thus, the Common Economic Space is seen as a free and integrated market between the European Union and the Russian Federation, based on the implementation of common or compatible rules and regulations, including administrative compatible practice as foundation for the synergies and scale economies that are associated with a higher level of competitiveness on larger markets.

Ever since its emergence, the Common Economic Space has proven to be a sort of political campaign of slogans and it also displays the risk of facing technical problems regarding the trading policy. These are also to be approached, but a deeper detailing of them will destroy the idea, which is seen as a political concept. To avoid these risks, the representatives of the European Union will have to significantly improve their abilities of development and implementation of authentic common strategies from the perspective of foreign relations. All of the thinking and implementation methods of the idea must originate in a honest understanding of the fundamental differences that exist and which have the biggest chances to continue their existence between the European Union, the Russian Federation and the remaining European states and their members.

The main objective of the Russian Federation has always been the one of receiving support from the European Union in order to modernize their economy and to improve the global economic integration level, inclusively through its adherence to the World Trade Organization, as well as to reach free access on the market for its products. President Vladimir Putin sees the modernization of the Russian economy as a fundamental issue for the regaining of the Russian Federation's position as a worldwide known international power. From this perspective, following the reach of this objective has proven more important than the development or maintenance of the nuclear weapons of the veto right within the Security Council of the United Nations Organization. Nevertheless, President Valdimir Putin is aware that the rapid modernization of the Russian Federation is impossible given the lack of collaboration with the western state, economically and technologically advanced and especially with the European Union, which represents an important trading and investment partner. The intensity of the dialogue between the two parts emphasizes the high economic interdependence degree between the European Union and the Russian Federation, the economic complementarity being based on issues that cover a wide range, from trading and investments to energy.

Also, the Russian Federation represents an important market for the European Union, as well as for its member states, with a significant growth potential of certain key economic sectors of the European Union, such as the auto industry, being, at the same time a destination for the investments of the energy and retail companies. In spite of the actual complementarity and interdependence, one desires to extend the cooperation by diversifying the Russian exports towards the European Union, which are nowadays significantly represented by the energy resources.

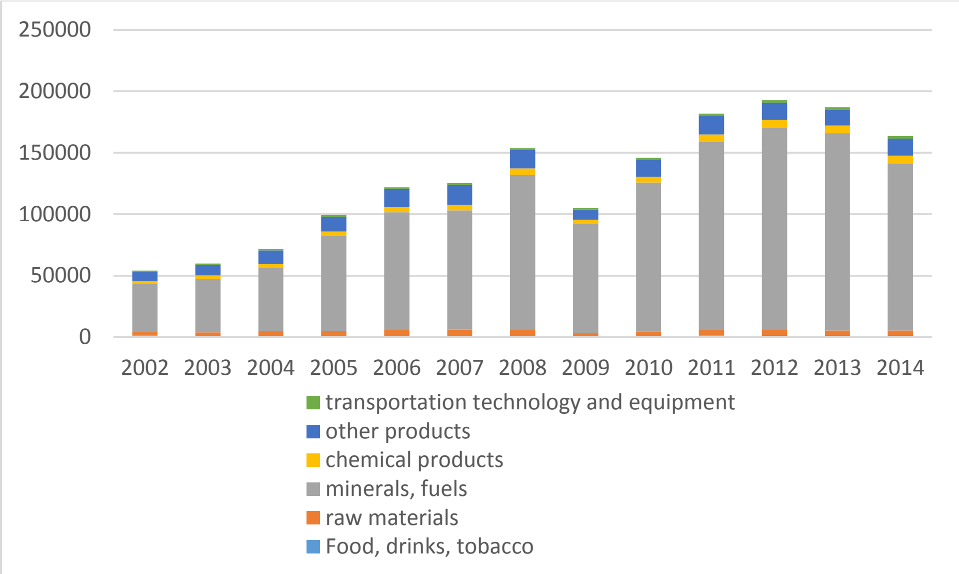
Table 1 - Total imports of the European Union from the Russian Federation on product categories, 2002-2014, Euro mil.

Product category/year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Food, drinks, tobacco	1140	851	619	663	801	895	855	647	607	1000	1443	1258	1532
Raw materials	2791	2985	4271	4365	4913	5045	5075	2515	3944	4467	4488	4112	3716
minerals, fuels	39267	43531	51260	77103	95888	97078	126064	89002	121298	153495	164369	160606	136183
chemical products	2406	2695	3152	3657	3981	4432	5271	3325	4715	5780	6330	6296	6202
other products	7518	8616	11101	12108	15027	16202	14829	8361	13805	15383	14110	12782	13950
transportation technology and equipment	996	1168	1237	1256	1194	1490	1469	1158	1368	1699	1977	1973	1994

Source: Eurostat database

From the above table, we can notice that in spite of the fact that the trading cooperation level between the European Union and the Russian Federation has been significant even from the reach of an agreement regarding the Common Economic Space and namely at the end of 2003. Thus, alongside with the shaping of the Common Economic Space and the more and more frequent discussions and forums of the representatives of the two geopolitical and geostrategic entities, the volume of the trading transactions with different product categories has significantly risen, from approximately 150% in the case of food product, transportation equipment and technologies and other products, to nearly 400$ in the case of minerals and fuels, values which once again come to confirm the supremacy of the Russian Federation in the energy field. There is no doubt that lower values compared to the previous evolution can be especially noticed between 2007 and 2009, as a result of the effects of the global financial and economic crisis.

Figure 1 - Imports of the European Union from the Russian Federation, mil. Euro, 2002-2014



Source: Own processing on Eurostat data in Microsoft Excel

In the field of energy, the bilateral relation reached the highest interdependence degree. The European Union is by far the most important importer of Russian natural resources, the Russian energy exports reaching nearly 55% of the incomes of the national budget. In the case of old member states in the European Union, like Germany, the level of Russian energy imports is higher than 20%, higher volumes of the imports being registered in the case of new member states. The importance of the Russian Federation from the perspective of energy provider for the European Union will remain high; with energy resources that disappear in time, the European Union could face the situation of competing with China, Japan, the United States of America or other states competing for the Russian energy exports.

Table 2 - Exports of the European Union to the Russian Federation, 2002-2014, mil. Euro

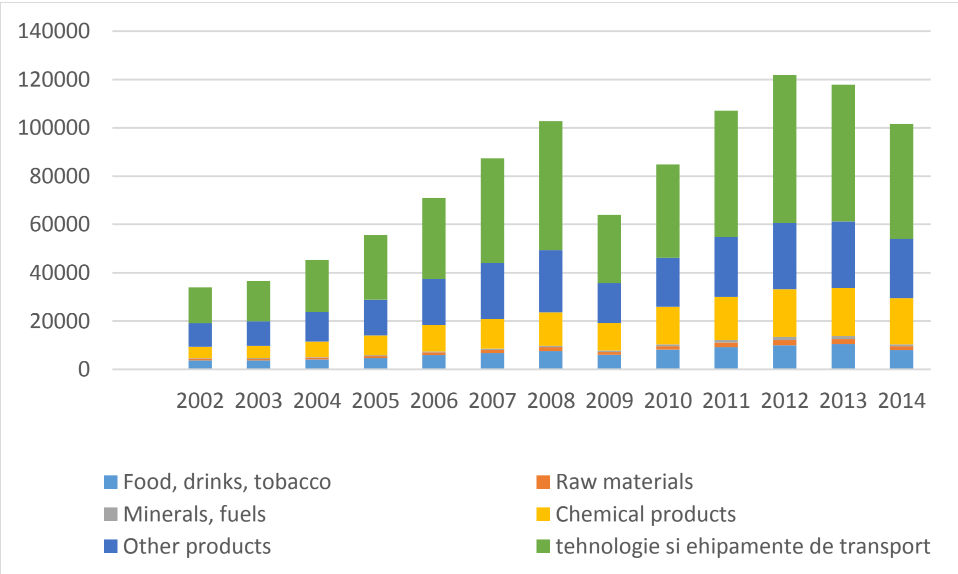
Product category/year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Food, drinks, tobacco	3629	3679	4046	4628	5927	6769	7567	6082	8180	9107	9898	10436	7953
Raw materials	824	727	844	853	1070	1253	1555	1115	1414	1981	2266	2185	1616
Minerals, fuels	184	198	249	319	425	536	615	612	716	1070	1398	1105	789
Chemical products	4720	5186	6426	8251	10968	12439	13831	11412	15656	17976	19603	20115	19125

alte produse finite	9694	10120	12257	14792	18952	23052	25799	16379	20326	24662	27398	27435	24671
Transportation equipment and technology	14826	16685	21550	26746	33653	43394	53400	28448	38534	52322	61233	56567	47454

Source: Eurostat database

As for the exports of the European Union towards the Russian Federation, the sides' agreement regarding the development of the Common Economic Space has deepen the cooperation between the two global actors, thus emphasizing, if necessary, the dependence of the Russian Federation on technology originating in the member states of the European Union, clearly superior from the qualitative, productivity and efficiency perspectives. Thus, the statistics reveal values of some product categories whose export volumes has increased up to four times after the development of the Common Economic Space; within this categories, the table above includes chemicals, raw materials and technology and transportation equipment, thus presenting a positive evolution of the technologic development level of the Russian Federation, a fundamental issue of maintenance and advance on the global stage of power.

Figure 2 - Exports of the European Union towards the Russian Federation, 2002-2014, mil Eur.



Source: own processing on Eurostat data

Given the conditions, the construction of new oil pipelines or the modernization of the existing ones and the transportation infrastructure should lead to the growth of the exports volume towards the European Union and a deepening of the interdependence, with the potential risk that the Russian Federation interests as energy provider to be different of the ones of the European

Union as energy importer. The way in which these interests will be balanced alongside to the cooperation level and interdependence might become a fundamental issue within the bilateral dialogue.

Conclusions

As a result of the enlargement of the European Union and of the fact that it became an important international actor, the European Union has practically turned into a neighbor of the Russian Federation. Through this perspective, we should all not be surprised that the representatives of the Russian Federation got to shape specific relations and a strategic foreign policy, having the European Union in its center. The bilateral and multiple-leveled cooperation between the European Union and the Russian Federation considers the creation of common objectives and the shaping of a series of activities needed in order to reach the proposed objectives.

The cooperation between the European Union and the Russian Federation, dating back from the 1980's has mainly considered the economic and trading aspects of the partnership, with a common objective of overpassing all the regulations or phenomena that could have stood in front of the bilateral trade and investments, and also of supporting the technological and economic development of the Russian Federation.

The Common Economic Space is seen as an important part of the official relationships framework, which is meant to deepen the economic relations and further more cooperation fields of the European Union and the Russian Federation, as the second one is seen as an important market for both the European Union as a whole and for the member states of it, with a significant growth potential noticed in the case of key economic fields of the European Union, such as the automotive and transportation industries, being also regarded to as an attractive destination for the energy and retail companies' investments.

The shaping of common economic objectives and of the Common Economic Space, together with the meetings, dialogues and more and more frequent forums uniting the representatives of the European Union and of the Russian Federation, have led to a significant growth of the bilateral trade from 150% in the case of certain product categories, to approximately 400% in the case of other companies.

The common agreement of the parts regarding the shaping of the Common Economic Space has deepened the cooperation level between the two sides, showing that the level of the technology is the European Union still represents a significant benchmark for the Russian Federation.

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A THEORETICAL APPROACH TO THE TRANSITION FROM A RESOURCE BASED TO A KNOWLEDGE-ECONOMY

Diana GIOACASI*

Abstract: *Economic development and the emergence of new technologies have changed the optics on the factors that are generating added value. The transition from a resource-dependent economy to one focused on tangible non-financial factors has progressed in a gradual manner and took place under the influence of globalization and of the internet boom. The aim of this article is to provide a theoretical approach to this phenomenon from the perspective of the temporal evolution of enterprise resources.*

Keywords: competitive advantage; resource based economy; new economy
JEL Classification: Q00; D83

Introduction

The different approaches on enterprise value and the factors determining the performance of an organization have imposed the development of several economic theories of the enterprise. Each theory of the company represents an abstract model of the real enterprise which defines its characteristics and behavior.

Some economic theories offer different explanations of the same phenomenon, while others offer a complementary perspective.

The economic literature can identify a significant number of economic theories, starting from the neoclassical theory of the firm up to current theories and knowledge-based capabilities; the most recognized contemporary theories in studying the relationship between the enterprise and economic performance being the resource-based theory, the dynamic capabilities theory and the knowledge-based theory.

Over time, many researchers have contributed to identifying the determinant factors in sustaining competitive advantages (Porter, 1985; Rumelt, 1984, Wernefelt, 1984; Barney, 1986).

The purpose of sustained competitive advantage is to implement strategies which are meant to exploit the essential resources of the enterprise by attracting external opportunities and neutralizing threats and weaknesses.

* PhD Student, Doctoral School of Economics and Business Administration, "Alexandru Ioan Cuza" University of Iasi, e-mail: dianagioacasi @yahoo.com

From this perspective, company resources represent all the assets, capabilities, organizational processes, firm attributes, information and controlled knowledge by the entity which enable it to design and implement strategies meant to improve its efficiency and effectiveness (Daft, 1983).

1. The perspective of economic performance based on enterprise resource

There were many debates in the eighties regarding the importance of the firm's internal capabilities (Prahalad and Hamel, 1990) as opposed to the impact of external factors to obtain sustained competitive advantages.

This antithesis regarding the impact of internal factors as opposed to external factors on the economic performance of a company has its starting point in Porter's theory of competitive advantages which focused on explaining the competitive advantages as the source of the relationship between external opportunities and strategies developed by the enterprise itself.

Porter's theory explains the source of competitive advantage by using two assumptions: (1) companies in the same field have access to the same generating resources of competitive advantages (Porter, 1981; Rumelt, 1984) and (2) any heterogeneity of resources held by entities in the same sector is short-term, as resources are mobile and can be sold and transferred on market terms (Barney, 1986).

Current reality showed that both external and internal factors are crucial in obtaining sustained competitive advantages.

From this perspective, resource-based theory provides a reconciliatory role for the internal capabilities and external opportunities to generate sustained competitive advantages and rejects Porter’s hypothesis, becoming one of the most influential theories in strategic management, as it explains the company's performance and allows the comparison of the entities from the same branch of activity (Lockett, Thompson and Morgenstern, 2009).

Originally popularized by Edith Penrose, this economic theory was further developed by Wernefelt (1984) and Barney (1986, 1991).

A large number of researchers have helped in creating the conceptual framework of resource based theory (Nelson and Winter, 1982; Eisenhardt and Martin, 2000).

Whereas the conditions and characteristics of creating competitive advantages are perceived in different ways by the business environment, not all enterprise resources may be considered sources of the company’s performance.

The majority of resources support enterprise operation and only some of them are considered sources of competitive advantages. In these circumstances, any enterprise resource can become a source of competitive advantage if it fulfils four conditions:

- Resources are **valuable** if their possession leads to a significant improvement in the economic results of the enterprise by exploiting opportunities and neutralizing threats.
- Enterprise resources are sources of sustained competitive advantage if they meet the rarity feature when compared to the resources held by competitors. Any company resource can be a valuable one but the fact that it can be owned by a large number of competitors shows that it can not be a source of competitive advantage.
- Resources must be **imperfectly imitable.**
- **The non-replaceable** character of the resources which generates the sustained competitive advantages can be presented in two forms: it denies the posibility for a competing entity to identically create its resources and/or has the capacity to obtain similar resources which allow it to implement the same strategies as other entities from the sector of activity.

The relationship between the competitive advantage and the revenue generated by it is directly conditioned by the ability of the company to develop protection mechanisms such as patents and copyrights.

Despite the fact that the resource-based theory links the company assets to its performance, one can identify a large number of criticisms concerning the validity of this theory:

- The inability to define and differentiate resources generating sustained competitive advantages of the company. The fact that the enterprise resource definition is too vague and includes all assets and property owned by the company without giving precise indications concerning their differentiation.
- A significant number of criticism is focused on the vague terminology and lack of consensus on the definition of the concepts and terms being used, since one can not make a clear distinction between the resources, skills and capabilities.
- The definitions given to the concepts have an tautological character and express generally valid truths regarding the importance of enterprise resources on creating sustained competitive advantages, without giving specific information on the categories of assets that lead to economic performance.

Although resource-based theory links enterprise resources to its performance, proponents of this theory have not paid enough attention on how to evaluate and test its assumptions, therefore its disciples were unable to define the valuable resources of the company.

Although tangible and intangible assets are both considered to be sources of the company's performance, they do not present the same importance in providing competitive advantages.

Support in favour of this theory is given by the fact that the role of resource-based theory is that it helps managers to understand which skills represent the most important assets, on one hand, and to identify how these assets can be used in order to improve enterprise performance, on the other hand.

2. From the resource based economy to knowledge-economy

The thriving economic activity and the change in perception of the generating factors for sustained competitive advantages led to the emergence of new trends in terms of the role played by an enterprise's resources on economic performance.

In this regard, bibliometric analyzes conducted up to the present date identified several research directions having as a starting point resource-based theory assumptions which have generated the development of new economic theories: the dynamic capabilities theory (Teece, Pisano and Shuen, 1997) and the knowledge- based theory (Grant, 1996; Kogut and Zander, 1992).

The transition from a static to a dynamic vision of the future economic benefits generating resources was subject to the new requirements of the knowledge society.

The current reality has shown that a resource can be the source of a sustained competitive advantage, but this can not always be maintained, since economic development has led to the standardization of information and any entity must adapt to new changes and challenges of the contemporary society.

In the new economy, economic performance is generated by the company's ability to attract new forms of competitive advantage resulting from the combination of resources that determine value creation, arguing that a firm's competitive advantages are determined by the human ability to reconfigure, combine and integrate knowledge.

Dynamic capabilities theory is an extension of the resource-based theory which makes the transition from the reasoning based on the perception that the possession of valuable resources automatically leads to added value to a more dynamic way of thinking which states that the way in which the resources are mixed together with the non-financial factors is essential. Proponents of this theory envisage the entity as a set of dynamic processes in which the accumulation of valuable assets is not sufficient to achieve competitive advantages but the interaction of resources lead to economic benefits. In this way, the authors define capabilities as the ability of the company to build, integrate and reconfigure internal and external competencies to respond to the changing economic environment

(Teeco, Pisano and Shuen, 1997) and expresses how such a competitive advantage can be achieved in contemporary society.

However, Eisenhardt and Martin (2000) define dynamic capabilities as a set of specific and identifiable processes of integration and reconfiguration of resources. Although several definitions can be used to define dynamic capabilities, most definitions refer to them as being routines (Nelson and Winter, 1982), capabilities (Kogut and Zander, 1992) and knowledge (Zollo and Winter, 2002).

The process of using dynamic capabilities to create added value involves three phases:

- Creating dynamic capabilities represents the learning process that enables the development of new knowledge, routines and processes. This category of capabilities refers to the organizational learning process in which the information exchange among team members creates new knowledge and it is the source of innovation and development process of the entity.
- *Integration* of dynamic capabilities is the ability to coordinate the entity which allows sustained benefits creation through the transfer of information between entreprise members. We conclude that the creation of new knowledge is achieved by processes and procedures development which allow the exchange of skills and abilities among employees.
- Dynamic capabilities reconfiguration is the existing assets's ability to adapt and the process of capabilities combination in order to face the economic environment changes.

If, as in the case of the resource-based theory, knowledge is being regarded as generic enterprise resources without being highlighted in some way, in the case of the dynamic capabilities theory we note that there is a distinction between capabilities and resources In this regard, capabilities are the enterprise's ability to use its resources by using routines and organizational processes which enable the development of interactions between resources. Some researchers which showed great concern with regards to the process of knowledge creation analyzed the conceptual link related to dynamic capabilities (He and Wong, 2004; Sambamurthy and Subramani, 2005), while others have investigated how these skills are presented in knowledge management. Economic literature identifies a number of criticisms of the work Teece, Pisano and Shuen (1997), so that Zollo and Winter believes that this theory is tautological, as it defines the capability as a skill, while Priem and Butler (2001) points out that the dynamic skills are only being identified as such and do not express the exact way of determining the competitive advantage. Following the development of the knowledge-based society, Teece redefines the concepts, pointing out that dynamic capabilities are that type of capabilities that allow an organization to create, use and protect those intangible assets considered as sources of long-term performance (Teece, Pisano and Shuen, 1997). From the perspective of the eighties according to which enterprise resources are generating economic benefits, subsequent reasoning leads to a dynamic vision which implies that enterprise resources do not create economic performance by themselves, but that the way in which these resources are combined and the integration of those resources lead to an achievement of sustained competitive advantages.

Each of the hypotheses developed by the resource-based theory and the theory based on dynamic capabilities were considered truthful in their moment of glory, first during the eighties and then at the beginning of the third millennium. Currently, quick access to information and economic activity globalization showed that physical assets are not the most important elements in achieving economic performance, but rather the ability to know the relative importance of each type of resource on economic performance of the entity which finds its explanatory roots in the knowledge-based theory. New approaches to knowledge-based society do not reject the importance of financial resources in generating economic benefits but the current degree of innovation no longer allows the fulfilment of the four conditions: value, rarity, unsubstitutability and uninimitably as a tangible asset.

This idea is reinforced by the fact that the way in which competition takes place in modern society is totally different from the understanding one had 20 years ago. In the current time, most entities hold resources that generate competitive advantages but it is the ability to fructify its assets, on the one hand and the skills of the employees, on the other hand, what make the difference in terms of an enterprise’s performance.

Knowledge-based theory has its origins in resource-based theory, according to which knowledge is the most important resources of an enterprise. The underlying assumption of this theory is that non-financial resources of the company are the most significant because of the difficulty on in copying them, in other words the nonfinancial resources are the main proponents of competitive advantages and performance of the enterprise, since they are a complex and difficult to be copied.

This knowledge of the enterprise is represented by the organizational culture, policies, documents, systems and employee skills. The underlying assumption on which knowledge-based theory is built is that value creation is achieved if the entity has the ability to develop assets which incorporates skills and if its main resource is the knowledge (Grant, 1996). Possession of knowledge-intensive assets means that the entity will not automatically get competitive advantages, but its ability to use their knowledge and create new ones are determinant factors of economic performance in the new globalized economy.

The pioneers of knowledge-based development theory are Bruce Kogut, Udo Zander, Ikiyiro Nonaka, Gunnar Hedlung, George van Krogh, Johann Ross and JC. Spender. The theory of knowledge is based on a series of assumptions about knowledge characteristics: knowledge is the most productive resource in terms of contribution to value added, different categories of knowledge vary according to their portability so that there is a distinction between tacit knowledge and explicit knowledge, employees are key agents for knowledge creation and in the case of tacit knowledge they are the main holders of it and some knowledge is the subject to scale economies, being incorporated in technologies.

The way an enterprise perceives knowledge has led to the splitting of proponents of this theory into two groups:

- The first group of theorists have a vision close to the resource-based theory which stipulates that knowledge represents the strategic resources of entities. Although resource-based theory recognizes the role of knowledge in generating sustained competitive advantages, its theorists do not provide an in-depth analysis, but treats them as generic resources and does not distinguish between assets, knowledge and capabilities.
- The second group of theorists share Spender's view on the importance of collective knowledge, focusing on the creation of organizational knowledge as a routine procedures. The creation and distribution of basic capabilities and skills can be achieved by the so-called „knowledge management" that enables the creation, storage and implementation of knowledge. Knowledge management has three main functions: (1) knowledge creation through research and innovation, (2) the collection of new knowledge, its encoding and combining with existing knowledge and (3) the dissemination of skills, experience and knowledge within the organization.

In essence, the knowledge-based theory argues that companies perform in a constantly changing market, as they are unique and have the ability to accumulate intangible resources that lead to the company's performance. Capabilities and resources have three distinct characteristics that make them difficult to be copied: they are historically determined, they are organization structure built-in and they are silent (Barney, 2001).

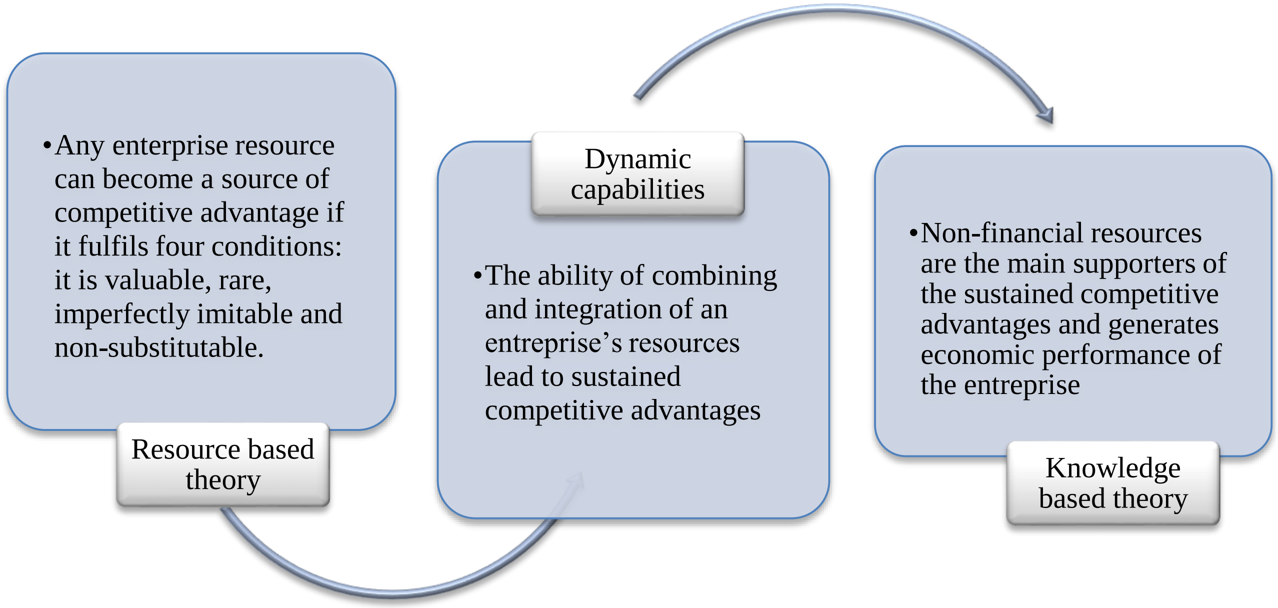
The creation of knowledge and skills is a difficult and expensive task for any enterprise. The knowledge-based theory examines the importance of skills and of the unique abilities such as patents, brands and technologies that enable companies to achieve higher competitive advantages. The main criticism of the knowledge-based theory is the difficulty of defining the concept of enterprise knowledge.

Conclusion

There is disagreement over the validation of the knowledge concept. Globalization and the emergence of the "new economy" has led to a change of view concerning the generating factors of economic benefits. In the first phase, we analyzed the 80's period, considered as an industrial period, which flourished, having played on the importance for tangible resources and easy access to markets and raw materials to the detriment of other competitors. Enterprise theoretical resource approach is general, it does not distinguish between tangible and intangible resources and the only way in which an asset could be a source of competitive advantage is the fulfillment by it of four conditions: it is valuable, rare, imperfectly imitable and non-substitutable (see figure 1).

Economic development and increasingly easy access to information have demonstrated that resources are not creating economic benefits by themselves, but rather the ability of human capital to make use of enterprise resources, in terms of structural and relational capital, is leading up to the process of quality products and services production.

Figure 1 - From resource-based theory to the knowledge-based theory



Source: Own elaboration

Currently we are witnessing the development of a new vision on the resources of an enterprise, one that distinguishes between physical assets and non-financial resources. With globalization that facilitated access to information, entities invest in intangible resources such as motivating and training employees to get innovative products and services.

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THE ACQUIS COMMUNAUTAIRE WITHIN TTIP - THE CASE OF ROMANIA

Ioana GUTU*

Abstract: *On every enlargement, European Union applies to all its new Member States a set of common legal norms, known under the name of acquis communautaire, norms that also include multilateral or bilateral international agreements the EU is part of. Currently, the EU and the US are negotiating a regional trade agreement, namely the Transatlantic Trade and Investment Partnership (TTIP), of which effects over the Member States will be established according to their particular national legal order, as part of the EU acquis, presented under the form of secondary EU legislation. As part of the 28 EU Member States, Romania's legal system will apply the European international norms that regard the dispute resolutions that might occur among states or states and investors, in accordance with the European's Court of Justice (ECJ) jurisprudence, as it will be provided by the legal text of TTIP, after it will be adopted, ratified and implemented by the EU, and subsequently, by each of the European Union's Member States.*

Keywords: acquis communautaire; TTIP; EU law
JEL Classification: F130

Introduction

Divided into 31 chapters, the European Union (EU) acquis represents the accumulated legislation, legal acts together with the court decisions which constitute the EU legislative baseline. Within each of the EU enlargements, the accession countries are required to adapt their legislation in the relevant areas, to the EU acquis communautaire, in the sense of harmonizing their national regulatory framework with the EU law (Kasteng, 2014).

Regional trade agreements the EU is part on, represent a piece of the ongoing process of developing the acquis. International law, that includes multilateral or bilateral international agreements, like the Transatlantic Trade and Investment Partnership (TTIP), represent separate legal orders. The legal effect that an international treaty might have in a given national order is being determined by the state's legal order, and not by the international law. The principle in regard with an international legal agreement that has to have legal effect within the European Union's legal order, states that provisions need to be firstly implemented within the EU, by adopting or amending EU secondary legislation (Gerstetter *et al., 2013).* Once the process is completed, the international agreement has the same legal effect as EU law and needs to be properly implemented, in accordance with its international legal provisions.

* Ph.D. Candidate, Alexandru Ioan Cuza University of Iasi, e-mail: gutu.ioana@yahoo.com

The Transatlantic Trade and Investment Partnership is a currently negotiated free trade agreement between the European Union and the United States of America. The negotiations started in July 2013, after the established High Level Working Group on Jobs and Growth issued a report through which it recommended for the negotiations to start. It aims to bring EU and US economies closer together (European Commission, 2013) by working on setting global standards and a greater compatibility between the two actors' regulations.

The practical impact that TTIP would have on the EU acquis would depend, inter alia, on the legal effect of the bilateral trade and investment agreement TTIP pretends to have, within the EU legal order and also on the way it would be enforced. Enforcing TTIP would depend not only on the extent the parties would implement it and the effects it might have on the domestic legal order of the Member States, but also on the level to which they can rely on additional mechanisms, in order to enforce it.

1. The direct effect on the EU trade and investment agreements

The common way used by the companies that wish to seek remedies for determining EU to fail to implement an agreement it has concluded, is to raise concerns before Member States' courts, or, subsequently, to the European Court of Justice (ECJ). The jurisprudence shows that such cases where ECJ had to decide whether an international trade and/or investment agreement that has been previously concluded and ratified by the EU, has a direct effect inside the EU legal order, have previously been met. Within these circumstances, a complaint may rely on the agreement that the EU concluded, before a Member State's courts and in particular, the problem consists in whether ECJ can or cannot invalidate EU actions.

EU law uses the concept of "direct effect" as a provision of an EU treaty that can be used as a basis for a lawsuit within a Member State's courts. Within its jurisprudence, ECJ's main position is that a plaintiff can rely on the European Union's international legal provisions only in the case they are capable of conferring rights to the citizens of the Community (Gerstetter *et al.*, 2013). Within this type of circumstantial cases, the European Court of Justice assesses the cases by analyzing the subject matter, the purpose of the rules and whether the international legal provisions that comply with the case are "unconditional and precise obligation" (ECJ, 1982).

ECJ also refers to the cases of multilateral trade agreements and WTO agreements, where it positions that they have no direct effect over the nationals, due to the fact that they have as a base international negotiations that are considered to be flexible in regard to their provisions (ECJ, 1972).

In the case where WTO law would have a direct effect within EU legal order, ECJ stands to the point where the executive and legislative branches would be deprived of the ability of freely negotiating, and would also lead to imbalances within the relation with the trade partners that do not comply their national legal order with the WTO law. In the cases concerning EU's bilateral agreements, the international trade law does not generally have a direct effect.

In regard with the lack of direct effect of the WTO law over the EU's compliance with trade and investment agreements it has ratified, concerns are settled under the provisions of Treaty on the Functioning of the European Union (TFEU). Within this internal EU legislative organ, Art. 340 (2) enunciates that in the cases of non-contractual liabilities, the Union shall act in accordance with the general principles that are common to the laws of the Member States i.e. the international general accepted principles (TFEU, 2012), commonly known as acquis communautaire. The exception of this rule recognized by the ECJ asserts that a complainant is allowed to invoke WTO law in contradiction with the provisions of the EU law in the case when the specific norms of EU law were adopted specifically in order to implement WTO law (ECJ, 2005). More precisely, ECJ ruled that "It is only where the Community has intended to implement a particular obligation assumed in the context of the WTO, or where the Community measure refers expressly to the precise provisions of the WTO agreements, that it is for the Court to review the legality of the Community measure in question in the light of the WTO rules" (ECJ, 2005).

ECJ took the abovementioned decisions in respect with the WTO provisions and considering the multilateral trade law. There is no reason to assume that in the case of a bilateral trade and investment agreement as TTIP presumes to be after the negotiations will come to an end, EU's position would be different. TTIP represents a specific situation where EU has intended to implement a particular obligation assumed within the treaty text, or an EU measure that refers expressly to a provision TTIP might contain; in such a case (Gerstetter *et al.*, 2013), TTIP would likely have a direct effect within the EU law.

2. Dispute resolution within EU international legal framework

When about a dispute related with the interpretation and compliance with a trade and investment agreement, there can not only be used the national courts but also the judicial institutions at the international level. In this regard, subsequently described, there are two cases of mechanisms that can be used.

The first case relates with mechanisms that allow the states that have the quality of being a party within a dispute, to settle talks among themselves; these situations develop under the name of inter-state dispute settlements, characterized by the fact that one party opines that the other one hasn't complied with its obligations. Within WTO, the inter-state disputes are developing under the WTO Dispute Settlement System (WTO, 2015); in such a case, an inter-state dispute resolution may have a beneficial character in the situation when the respective bilateral agreement contains norms that might be the subject of an international judicial dispute.

The second mechanism that may be used in the cases of dispute resolutions, which are mostly present in the cases of international investment agreements, is the Investor-State Dispute Resolution (ISDR). This procedure is meant to solve the disagreements within the private sectors, mainly companies that are unsatisfied of the fact that a state which is a party to a certain investment agreement, does not coordinate its actions according to the agreements provisions, in the sense of bringing claims against that party by using a judicial forum. Alongside with the judicial systems of the relevant states, ISDR grants the foreign investors with the opportunity of an additional tool in the process of protecting their investments and business expectations. Generally, the protection granted under ISDR offers, has a stronger character than the one provided by the legal systems of the involved states.

Arbitration is a form of dispute resolution outside the national or international courts; within these cases, the parties to the dispute agree to be bound to a decision of one or more persons that must judge the case by existing legal rules. There are several acting bodies that regulate with regards to investor-state arbitration in Bilateral Investment Treaties (BIT's), by which the World Bank's International Centre for Settlement of Investment (ICSID) is better known.

The process of arbitrating a cause involves specifically appointed arbitrators that have the obligation of judging the case under the provisions of the rules of law agreed by the parties; in the case of non-existence of such an agreement, the case will be judged by firstly considering the law of the state involved and secondly, the specific rules of international law. Parties may consent for the arbitral awards to be made public. The most common ICSID cases deal with investors that seek for monetary compensations by bringing to the host state the accusations of behaving unlawfully. In the case when the claim is considered to be justified, arbitrators will award by specifying an amount of damages that the state must pay to the investor; in most of the cases, these awards specify very high amounts. An ICSID decision in such a case is considered to be directly executable, being equivalent to a court judgment for all the ICSID contracting states (ICSID, 2015).

The legal text of the ICSID Convention., at Art.1 (2) uses a wording as “conciliation and arbitration of investment disputes between Contracting States and nationals of other Contracting States” (ICSID, 2006), meaning that the arbitration procedure may only be used by an organized political community i.e. a state. European Union is a politico-economic union consisting in 28 member states, and not a state by itself; within this case, TTIP might raise concerns from a legal point of view; due to this fact, it is impossible to comply with the conditions set in Art. 67 of the ICSID Convention and to endorse it. However, all the 28 member states of the EU have already ratified the ICSID Convention; within these conditions, investors have the possibility of using ICSID arbitration against the EU member states instead of EU. Given the fact that TTIP has only reached in July 2015 the 10^{th} round of negotiations, EU and US can still agree over using a different arbitral institution to deal with Inter-State Dispute Resolution (ISDR) cases.

3. ISDR within the bilateral trade and investment agreements

In favor of including ISDR in the bilateral investment agreements the EU will be part of, it can be mentioned that within the inter-state dispute resolutions, investors should be able to rely on the political will of their home states, in order to support their actions. From the states’ point of view, engaging into an inter-state dispute settlement, might damage the existent relations among trade partners. This argument is not also valid for the case of investor-state dispute resolution, due to the fact that the process is being initiated by the private companies. The administrative and financial costs of the proceedings are supported by the EU or a state, if there is the case when one of these entities initiates the process of an inter-state dispute resolution. But, if there is the case when the process is being open by a private actor, the costs do not have to be covered by the EU.

Another relevant argument for including ISDR in bilateral investment agreements would regard the developing countries whose legal systems are often not very effective, swift or transparent, an additional reason for the investors to have the alternative of using a different legal forum, if necessary.

In this regard, the corporate sector that is actively involved in the TTIP negotiations process has presented its agreement for the inclusion of ISDR clause within the final negotiated text. US has implemented in 2012 in its Bilateral Investment Treaty Program (BIT) a series of ISDR provisions that are meant to improve the existing legislation in respect with the area of transparency (U.S. Department of State, 2015). EU does not currently have a BIT model to apply; despite this fact, reports of the EU Commission circulated among Member States a draft document that dealt with ISDR provisions to be applied and respected within the future EU investment agreements (Gerstetter *et al.*, 2013). TTIP negotiations will have to overcome the main existing differences between the US's BIT and the EU Commission's draft document. In this respect, the Directives for the negotiation on the Transatlantic Trade and Investment Partnership between the European Union and the United States of America that was issued in 2013, specify a set of conditions for EU to respect, when negotiating over ISDR within TTIP (Council of the European Union, 2014).

An investment agreement must have substantive provisions in the case when an investor makes a claim and wins the case within an arbitral court. The decisions in the investment cases given within the arbitral courts may not be used as a consistent body of law, meaning that they are not to be considered as jurisprudence, but they are very much case-specific. Due to this fact, national or international tribunals may refer to arbitral decisions in respect with their interpretation of a case. TTIP's negotiated provisions include expressions as "fair and equitable treatment" that in the light of the existing treaty language, may be interpreted by the international arbitrators in both for and against involved states, attitude that is often criticized by the literature (Gstrein *et al.* 2015).

As a concluding remark, TTIP would contain widely framed essential provisions (Gerstetter *et al.*, 2013) concerning investment protection in regard with the Member States' regulatory freedom that, if combined with the ISDR legal framework, might have a negative impact over the actions concerning the public interest of the EU. There are certain ways through which this risk could be avoided; firstly, the ISDR specifications could not be inserted at all within the TTIP legal text, or if not avoided, there could be used a pre-condition for using it. Secondly, ISDR could be inserted under the form of remedying deficiencies or limitations of existing legal international rules and systems. A strong argument of not inserting ISDR within TTIP text is that such provisions aren't needed, since there is a long trade history among EU and US and that foreign investors may use this highly evolved and stable relationship in order to seek protection under the domestic legal systems, where the risk of being treated unfairly because of the treaty language interpretation, is considerably reduced. A third valid argument regards with introducing ISDR provisions within TTIP text, in relation to the benefits that the potential investors might have; in such a case, a special attention should be given to the wording of the agreement, as not to affect the parties right to regulate. Anyhow, existing treaty language interpretations could be suggested to be used in an investment-friendly manner within the international arbitral courts awards (Gerstetter *et al.*, 2013).

4. Romania's legal implications under TTIP acquis

TTIP will represent a mixed agreement that after finishing the negotiations, will be subject of approval for the European Parliament and ratification by all the 28 Member States. Considering the fact that the internal legal system of each Member State is different, TTIP might not only require the approval of the national parliaments, but also the one of the governments, parliaments and chambers that represent the regional level (The European Committee of Regions, 2015).

Romania joined the European Union within the 2007 EU enlargement wave, becoming a Member State with full rights as considered by the European Commission, on the 1 of January of the same year.

In support of the EU accession, after signing the official EU application, Romania started implementing a number of EU norms on a series of different areas known under the term of acquis communautaire, restoring internal economic and judicial structures, fact that influenced it's regional relations.

According to Van Gend en Loos criteria (Benvenisti *et al., 2014),* the Treaties the EU is part of, have a direct effect over the national courts. In the case when TTIP will be concluded, along with the other 27 national parliaments of the Member States of the EU, the Romanian national parliament will have to also approve it, in order for TTIP to be enforced.

Since TTIP would have a direct effect over the EU law, Member States legal systems, as in the case of Romania, will have to comply with the provisions of the new adopted treaty, determining the national Courts to rule according to its contents, only after the EU will adopt it, determining the Member States to apply it as secondary EU legislation.

When about interpretation of the legal text of the treaty, Romania will use the international mechanisms the EU recommends as being suitable for the cases when the state is a party within a international state to state or investor- state dispute, or in the case of ICSID settlements, that according to the ECJ jurisprudence, prevail over the national laws. Romania would attend as a party to such law suits or international arbitral awards, as an independent self-standing member of the EU, and not through representatives of the Union.

The Romanian internal legal system would support the investors in their actions, in the case of ISDR within TTIP provisions. ISDR provisions are meant to improve the legislation of both EU and the Member States; under this light, until the TTIP text will be concluded, ratified and implemented, the international arbitrators may interpret the existing treaty language on both ways in regard with the state involved.

As previously used in such cases, ECJ jurisprudence represents the baseline for the national Courts in support of taking decisions in disputes concerning norms of bilateral treaties' applicability.

When concluded, TTIP will condition the Member States, including Romania, to comply with every requirement under the EU acquis, meaning that the provisions of this bilateral trade and investment treaty will affect all the sectors involved, in all the EU member states, reinforcing its primary goal of setting standards for economic globalization (Frankfurter Allgemeine, 2015).

Final Remarks

TTIP future agreement is about the way two of the World's bigger markets can bridge their divergences, and set regulations and standards that are meant to support their collaboration and enforce the common regulation ground as being a standard setting power.

The two parts that are currently negotiating over TTIP, EU and US, have different traditions concerning the regulatory approaches that they use. In this regard, the European Union's regulation system is supported by *ex-ante* regulation and by the public intervention; this behavior is known under the name of precautionary principle, which combined with the Common Market's provisions, ensure to the EU a high role within the international standardization. On the opposite side, the United States legislation is rich in provisions concerning liability regulations and jurisprudence, determining it to rely more on the market.

TTIP is meant to determine a larger cooperation among the two negotiators, aiming to become a so-called "living agreement" where all the Member States of the EU will be actively involved within the cooperation with the United States of America, by upgrading their existing rules, regulations and standards by issuing new provisions under TTIP acquis.

Due to the EU regulatory formation assumed under the legal clauses of the Treaty on the Functioning of the European Union, every bilateral treaty to which EU ratified becomes a part of the EU acquis communautaire, as secondary legislation. Given this situation, every EU Member State will have to adopt and implement it within its national legislation and use the new Treaty provisions within legal courts on national and international level.

In the case when TTIP will be concluded, governments, parliaments and chambers of the EU Member States will have to approve it, in order for this trade and investment treaty to have a direct effect and become a part of the EU acquis communautaire.

As part of the European Union, Romania will beneficiate from the provisions of TTIP, applying its rules both on national and international level, within courts and arbitral forums, by using ISDR provisions and ICSID settlements, reinforcing and supporting the TTIP main goal, that of boosting EU and US economies and changing the global economy's rules of play.

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EUROPEAN INTEGRATION: A MULTILEVEL PROCESS THAT REQUIRES A MULTILEVEL STATISTICAL ANALYSIS

Roxana-Otilia-Sonia HRITCU*

Abstract: *A process of market regulation and a system of multi-level governance and several supranational, national and subnational levels of decision making, European integration subscribes to being a multilevel phenomenon. The individual characteristics of citizens, as well as the environment where the integration process takes place, are important. To understand the European integration and its consequences it is important to develop and test multi-level theories that consider individual-level characteristics, as well as the overall context where individuals act and express their characteristics. A central argument of this paper is that support for European integration is influenced by factors operating at different levels. We review and present theories and related research on the use of multilevel analysis in the European area. This paper draws insights on various aspects and consequences of the European integration to take stock of what we know about how and why to use multilevel modeling.*

Keywords: European integration; diversity; political context; multilevel modeling
JEL Classification: C5; F02

Introduction

The natural clustering of individuals in a society generates a mutual correlation between individuals of the same group, but also a correlation between individuals and groups or between individuals and society. Individuals can be clustered in terms of housing, neighborhoods, villages, cities, counties, regions, countries, in terms of political parties and political doctrines or associations according to the work environment, religious orientation or leisure interests. The social context influences individuals' opinions, actions and behavior leading to a connection between individual characteristics and features of the society or between individual characteristics and the characteristics of the group to which the individual belongs. Individuals interact with the social groups they belong to and are influenced by these social groups. Social groups are in turn influenced by individuals in group (Hox, 2010, p.1). Multilevel data analysis performs a simultaneous analysis of individual-level data and group data.

Multilevel analysis is common in sociological studies, education, psychological research and health; multilevel analysis can be found in demography, epidemiology, biology, environmental studies, entrepreneurship and other areas that work with grouped data. Many political science topics

* Ph.D. student, Alexandru Ioan Cuza University, Faculty of Economics and Business Administration, Doctoral School of Economics and Business Administration, Iasi, Romania; hritcu.otilia@gmail.com

can be discussed with multilevel models. Multilevel theories assume that the variables measured at one level can influence another level's variables. The study unit in political science research can be defined in geographical terms (country, region, state), in terms of time (election periods) or from a social point of view (political or social groups). Multilevel data structures can be found especially in comparative analysis in political science (Jones *et al*., 1997).

Another area that uses multilevel models is European integration. European integration meant, over the past decades, a process of market regulation and a single policy—a system of multi-level governance that encompasses a variety of authoritative institutions at supranational, national and subnational levels of decision making (Trnski, 2004). Studies on European integration involve aggregated data and focus on transnational variations and trends of time regarding support for integration (Eichenberg *et al*., 1993). These studies imply individual data analysis, with a focus on factors that could influence individuals to support or not the European Union (Deflem *et al*., 1996; Janssen, 1991).

The multilevel method of analysis has gained popularity in biostatistics, ecology, political science and other disciplines over the past decades. A central argument of this paper is that support for European integration is determined by factors operating at different levels. We review the main theories and related research on the use of multilevel analysis in the area of European integration. Based on a systematic selection and analysis of articles, this paper outlines the emergence of the multilevel statistical analysis in the study of the European integration process. We put forward a general review and we draws insights on various aspects of European integration to take stock of what we know about how, where, and why multilevel statistical modeling is useful in this area.

3. Multilevel models used in analyzing the European integration process

Over the past couple of decades, multilevel modeling has become a very popular statistical analysis method which allows a coherent treatment of hierarchical data structures. According to Hox (2002), a multilevel problem is a hypothesis that concerns relationships between variables that are measured at different hierarchical levels. Contrary to the single-level models it has been shown that multilevel modeling provides statistically more accurate estimates. Hitt *et al*. (2007) emphasized the power of multilevel theories to address the complexities on context-dependent individual and organizational behaviors and called for multi-level research to address major real-world phenomena.

Multilevel modeling has been used in sociology, in educational research, in psychology and in health science. Other multilevel analyses can be cited from demography, epidemiology, environmental studies and biology. European integration subscribes to being a multilevel phenomenon: the individual characteristics of citizens, as well as the environment where the integration process takes place, are important.

To understand the European integration and its consequences it is important to develop and test multi-level theories that consider individual-level characteristics, as well as the overall context where individuals act and express their characteristics. The potential of multi-level theoretical and empirical designs is that they provide for a more robust and generalized understanding of why and under which conditions some individuals and not others show support for and embrace European integration. Also, a better understanding of determinants of European integration is of great importance towards designing and implementing integration policies.

3.1.Main theories that underlie the process of European integration

Many articles have been written on European integration in the past several decades and a large amount of conferences, meetings, workshops and debates have been devoted to this topic. It seems that the potential of multilevel modeling has been realized in research on the European integration process.

What drives citizens to support or oppose European integration? The literature presents three main categories of explanation (Hooghe *et al*., 2005, p. 420): trade theory, social identity theory and cue theory.

According to the trade theory, discussed in much research on the European integration subject, citizens take the economic consequences of market integration into account, both for themselves and for their countries and act accordingly. The European Union is seen as a regime that facilitates economic exchange (Hooghe *et al*., 2005: 420). European integration led to trade liberalization and increased factor mobility for skilled workers (Anderson *et al*., 1996; Gabel 1998a, 1998b; Inglehart, 1970). The level of education influences mobility (Gabel, 1998b) and hence in the most capital-rich member states unskilled workers are expected to be Euro-skeptic and managers or professionals Euro-supportive (Hooghe *et al*., 2005, p. 421). The economic theory can be validated if the outcome is affected, otherwise attitudes may be sensitive to group identities (Chong, 2000; Elster, 1990; Sears *et al*., 1991; Young *et al*., 1991).

Group membership, especially country identity can influence the support for European integration. European integration reinforces multiculturalism. Individuals who strongly identify with their national community and who support exclusionary norms tend to perceive European integration as a threat (Kriesi, Lachat, 2004); the anti-immigration sentiment is associated with Euro-skepticism (De Vreese *et al*., 2005) and there also exist a ‘fear, or hostility toward, other cultures’ (McLaren, 2002, p. 553). Previous research shows that national identity and European identity can be both positively (Citrin and Sides, 2004; Klandermans *et al*., 2003) or negatively related (Hooghe *et al*., 2002; Taggart, 1998; Christin *et al*., 2002). In recent years, citizenship has emerged as an important analytical tool for understanding interethnic group relations (Weldon, 2006, p. 333). Citizenship is said to bring “within its orbit three fundamental issues: how the boundaries of membership within a polity and between polities should be defined; how the benefits and burdens of membership should be allocated and how the identities of members should be comprehended and accommodated” (Aleinikoff *et al*., 2001, p. 3).

European integration is associated with migration. The overall demographic trends and changes in the labor market in Western societies lead to the idea that European societies will become even more ethnically and culturally diverse in the near future (Castles *et al*., 2003; Cornelius *et al*., 2005; Hooghe *et al*., 2008). Migration can be identified as labor migration, migration from former colonies, asylum seekers. Different forms of migration and different cultural and economic backgrounds of immigrants might trigger specific aspects of cultural or economic threat among the original inhabitants of a country (Citrin *et al*., 1997). The different foms of migration and increasing ethnic diversity might hence threaten social cohesion and might differentially influence generalized trust (Campbell, 2007; Cheong *et al*., 2007; Glazer, 1997; Putnam, 2007; Schildkraut, 2007). The hypothesis in Hooghe et all’s research (2005) is that the population of the host society will be less trusting when it faces a rapid rise in the immigrant population over time and when the perceived cultural and religious distance or economic differences between immigrants and the majority group are larger.

Cue theory draws on cognitive and social psychology by inferring that public attitudes are guided by domestic ideology and domestic political organizations. Further, their attitudes are cued by their ideological placement and by elites and political parties (Hooghe, Marks, 2005, p. 436). As national political parties are wrapped up in the multi-level governance of the EU, Hooghe et al. (2005, p. 425) hypothesize that domestic politics may shape public views on European integration. To measure support for European integration Hooghe et al. (2005) use multi-level analysis to investigate variation at the individual, party, and country level. They assume that political parties and countries interact with individual attributes to produce political effects towards support for European integration. Individuals are clustered in parties and countries and hence they should not be regarded as independent units of analysis.

Previous analyses show that the effect of political ideology (placement left or right) on EU support is weak (Wessels, 1995; Deflem et al., 1996). One explanation could be that the European Union integration is not an ideological process, but another explanation could be the contextual variation of the influence of the political ideology (Jones *et al.*, 1997). More specifically, it is possible that the political ideology only has an important role in some countries, as it is possible that the effect may be positive or negative, depending on the country. Multilevel models can test whether the variance of the ideology is statistically significant; if so, it can be concluded that there is contextual variation and we can analyze the country level factors that can cause this variation.

4. Individual factors and contextual factors influencing European integration

European integration is related to citizens, their reaction and the economic, social and political environment they find themselves at that point. An analysis on European integration should consider hence individual level variables - demographic characteristics, psychological dispositions, and political orientations, but also country-level factors - the state of the economy, the role of the political actors play towards support for integration.

European integration is strongly related to the migration phenomenon and hence to diversity. Diversity is a contextual phenomenon that individuals experience in their environment and hence it should be measured at the aggregate level. Survey analyses on the impact of diversity should be based on multilevel modeling techniques, including both individual and community characteristics (Hooghe *et al.*, 2008, p. 199), to account for lower variance at the individual level and changed standard errors in multilevel data (Hox, 2002; Snijders and Bosker, 1999). Hooghe *et al.* (2005) complement the research related to the study of ethnic diversity and generalized trust with a comparative cross-national test. They highlight the importance of multilevel methods of analysis in this kind of research.

The factors affecting citizens' decision to support European integration can be roughly classified into individual factors, social factors and norms, macroeconomic factors and political factors. Individual characteristics are demographic characteristics (gender, age, marital status, family background), wealth, income, current working status, individual human capital (education, working experience) and personal psychological traits. Contextual factors relate to the national identity, domestic ideology towards diversity and migration and domestic political organizations. All these factors affect support towards European integration at different levels and hence make it a complex phenomenon that cannot be understood at a single level of analysis.

4.1.The general multilevel model

The data for a European integration analysis occurs at two levels—the individual level and the country level. Ignoring the multilevel structure of the data is problematic, as it may substantially underestimate the standard errors and overestimate the coefficients of the country-level variables; country-level variables may result as significant when in fact they are not. The solution turns to applying hierarchical linear modeling. This technique allows for a single, comprehensive model that models the independent effects of both individual and country level variables, while also testing for interaction effects between the two levels. Multilevel models capture the true structure of the data and gives country-level coefficients that are more precise than conventional approaches (such as the OLS approach) (Steenbergen *et al*., 2002).

As individuals are clustered in parties and countries, they should not be regarded as independent units of analysis. To introduce the multilevel model that can be applied in European integration studies, we assume the study applied to N persons (i = 1, . . . , N_j) in J countries (j = 1, . . . , J). At the individual level, the dependent variable measures individual support for European integration (Y_{ij}) and a number of explanatory variables (X_{ij}). At the country level we have a series of variables (W_j) such as the national economic context, multiculturalism, political parties.

A separate regression equation can be set up for each country to predict the dependent variable Y_{ij} by using the explanatory variable X_{ij} - an individual-level explanatory variable:

Level 1: $Y_{ij} = \beta_{0j} + \beta_{1j}X_{ij} + e_{ij}$ (1)

where β_{0j} is the usual intercept,

β_{1j} the regression coefficient associated with the predictor X_{ij},

e_{ij} is the usual residual error term.

According to the subscript j (for the countries) the intercept β_{0j} and eventually the slope coefficients β_{1j}'s are permitted to vary across the macro units (the EU countries). The aim of multilevel modeling is to predict the variation of the coefficients by introducing explanatory variables at the country level W_j).

The intercepts β_{0j}'s vary across countries as a function of a grand mean (β_{00}) and a random term u_{oj}. If β_{1j}'s do not to vary across countries they are a function of fixed parameters (β_{10}), as shown in equation (2) and (3):

Level 2: $\beta_{0j} = \beta_{00} + \beta_{01}W_j + u_{oj}$ (2)

$\beta_{1j} = \beta_{10}$(3)

where β_{00}, β_{01}, β_{10} are the fixed parameters,

W_j is the explanatory variable ar the country level,

u_{0j} is the level 2 error term.

If we substitute the Level 2 equations in (1) we get the consolidated general form of a random-intercept model (Bryk and Raudenbush, 1992).

$$Y_{ij} = \beta_{00} + \beta_{01}W_j + \beta_{10}X_{ij} + u_{oj} + e_{ij} \quad (4)$$

If both the intercepts β_{0j}'s and the coefficients β_{1j}'s vary across countries as a function of a fixed parameters and random terms, we have the following Level 2 equations (2), (5). This variation across groups means that the intercept and slopes are different in different contexts.

Level 2: $\beta_{0j} = \beta_{00} + \beta_{01}W_j + u_{oj}$ (2)

$\beta_{1j} = \beta_{10} + \beta_{11}W_j + u_{1j}$ (5)

If we substitute the Level 2 equations (2) and (5) in (1) we get the consolidated general form of a random intercept and random slope model, as shown in (6)

$$Y_{ij} = \beta_{00} + \beta_{01}W_j + \beta_{10}X_{ij} + \beta_{11}W_jX_{ij} + u_{oj} + u_{1j}X_{ij} + e_{ij} \quad (6)$$

Individual characteristics can be variables such as gender, age, education, occupation, income, political ideology (self-placement on Left-Right scale), while the level 2 variables can be indices that evaluate the national economy, or the EU support among political parties, national identity, perceived cultural threat (related to diversity).

The findings at the individual level show if and how individual level variables might influence support for European integration. Hooghe *et al*. (2005, p. 421) show that 'in the most capital-rich member states we expect unskilled workers to be Euro-skeptic and managers or professionals to be Euro-supportive, whereas in labor-rich member states we expect the reverse'. They also assert that European integration creates 'economic losers and winners' and also leads to a 'sharp sense of identity loss among defenders of the nation (national attachment) and among anti-cosmopolitans (multiculturalism)' (Hooghe *et al*., 2005, p. 423). Research shows that national attachment combined with national pride significantly negatively affects support for European integration (Carey, 2002). There also exists a strong negative association between national identity and support for EU immigration policy (Luedtke, 2005). Research also talks about how individuals who say they support a particular political party will tend to follow that party's position on European integration (Steenbergen *et al*., 2002).

Conclusions

The existence of data hierarchies is neither accidental nor can it be ignored (Goldstein, 2003). The difference between individuals is reflected in all social activities, activities that are often a direct result of these differences. Grouping individuals, therefore, will have some effect and ignoring group effects can invalidate many traditional methods of study of relations between data. Data hierarchies can be recognized everywhere as many types of data have a hierarchical or clustered structure. Unlike traditional statistical models, multilevel models are used to capture the dependence of observations within groups or to analyze the impact of higher levels characteristics on the response variable. These models can also estimate the interaction between levels, which leads to a joint effect of an individual variable level and a higher level variables on the response variable.

Many social and economic phenomena concern a hierarchical structure, where individual entities tend to be related at different levels of the analysis. Social scientists have long recognized a need to integrate analysis of individual behavior and the social, technological and other environments within which that behavior occurs (Srholec, 2007). An analysis of the literature on European integration reveals it to be a research area in constant evolution. A complex process that involves different types of actors (individuals, groups of individuals, political parties), European integration needs to be analyzed through the use of multilevel models. European integration data clearly involves regional, within country or international interaction of individuals and hence the spectrum of factors that affect or determine support for European integration is quite vast. It is clear that our understanding of European integration has increased considerably since the use of hierarchical modeling. The empirical work on this theme takes into account social, institutional and political contexts as both enablers of and constraints on citizens' support for European integration. A multilevel analysis on European integration aims at examining how certain factors in national social/institutional contexts combine with a series of individual characteristics to influence support for European integration in the EU countries. Policy makers should understand and utilize the multilevel perspective if they are to understand the process of European integration.

Researchers have started to capture the process of European integration as a multi-layered phenomenon. The interdependence among different levels of analysis needs to be explored further so as to design more complex and comprehensive European integration models and policies. Still many directions for future work remain open.

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CAN HIGHER WAGES PROTECT YOUR HEART? REGIONAL EVIDENCE FROM ROMANIA

Cristian INCALTARAU[*]
Adrian-Vasile HORODNIC[**]
Doru BOTEZAT[***]

Abstract: *There is a bilateral influence between health and economic development. On the one hand, population health influences economic performance, both at micro and macro levels. On the other, being reflected in higher wellbeing, economic performance also influences health of population. Therefore, according to the materialist view, health status is dependent on the standard of living, whereas low living standards can increase the probability of morbidity and mortality by feeding poverty, poor hygiene and restricting access to health care and education, which is truly important in preventing diseases. Being generally considered to be a representative indicator for the standards of living, we have assessed the impact of wage variations on cardiovascular diseases (CVD) mortality, as CVD were proved to be more sensitive to socio-economic conditions, but also generally the main mortality cause in post-communist countries including Romania. Carrying out a panel data analysis over the 1995-2012 period on Romanian NUTSIII regions, the results showed a direct link between wage level and CVD mortality proving that the higher wages reach, the lower mortality is, thus confirming assumed materialist hypothesis.*

Keywords: wage level; cardiovascular diseases; mortality; Romania; panel data analysis
JEL Classification: J31; I14

Theoretical background

Lately, a major interest for studying cardiovascular diseases (CVD) emerged, not surprisingly however, considering that World Health Organization places them in the first position among the worldwide causes of death. Therefore, approximately 17.5 million people died from CVD in 2012, accounting for 31% of all global deaths. Moreover, according to the same organization, around three quarters of CVD deaths occurred in countries ranked in the low- and middle-income categories (World Health Organization, 2015).

Literature shows that there is a bilateral relation between health and economic development. On the one hand, population health influences economic performance, both at micro and macro levels. At micro level, health problems can force individuals to drop out labour market or it can discourage further human capital accumulation. At macroeconomic level, health condition can influence growth

[*] Researcher, Centre for European Studies, Alexandru Ioan Cuza University of Iasi, e-mail: cristian.incaltarau@uaic.ro
[**] Corresponding author, Centre for Ethics and Health Policy, Grigore T. Popa University of Medicine and Pharmacy, Iasi, e-mail: adi_horodnic@yahoo.com
[***] Centre for Ethics and Health Policy, Grigore T. Popa University of Medicine and Pharmacy, Iasi, e-mail: do_botezat@yahoo.com

through labour market mechanisms or by raising social expenditure. For example, focusing on the impact of CVD mortality on economic growth, Suhrcke and Urban (2010) used a worldwide sample, separated between low- and middle-income countries, and high-income countries. The results showed that there is no significant impact in the low- and middle-income countries. However, the authors found a robust negative contribution of increasing CVD mortality rate in the case of high income countries (Suhrcke and Urban, 2010).

On the other hand, socio-economic development can affect health in both ways, including CVD incidence and mortality. On the one hand, wage growth and lower unemployment induce an increase in the standard of living, decreasing CVD incidence, but, on the other hand, a decrease in unemployment can lead to a higher intake of hours worked, fatigue and additional stress, causing increased cardiovascular problems. Moreover, economic development and medicine improvement (together with the medicalisation phenomenon) can generate undesirable social consequences such as urban congestion, pollution, malnutrition, stress etc. There are numerous studies linking CVD incidence and socio-economic factors. For instace, using data from Germany, in order to evaluate the effect of state unemployment and economic growth rates on mortality caused by CVD, Neumayer (2004) concludes that CVD mortality rates are lower when the economic situation is worsening (e.g. when is economic recession). In another study, analysing the impact of fluctuation in economic status on CVD, the results show that predominantly procyclical CVD mortality is subject to substantial state-to-state variation (Ionides *et al*., 2013).

In order to further investigate how is the economic evolution affecting CVD incidence and mortality, previous studies have analysed the association between the socio-economic characteristics and CVD. Hence, a burgeoning literature reveals that CVD affect not only the poor across countries, but also the poor within countries (Fuster and Kelly, 2010). Indeed, CVD hardest hit among the poor and the association between these particular diseases and socio-economic status considers poverty both a cause and a consequence. Also, the link between socioeconomic characteristics and some specific CVD, such as myocardial infarction, hypertension or ischaemic heart disease has been investigated (Avendano *et al*., 2006; World Bank, 2005; Kolegard *et al*., 2002). For instance, Kolegard *et al*. (2002) showed that the living area socioeconomic context increases the risk of myocardial infarction, when analysing a Swedish urban population, during 1992-1994. In Brazil, the prevalence of hypertension was 30 to 130 per cent higher among the less educated and those with lowest income (World Bank, 2005). Also, was found that, for certain age groups, ischaemic heart disease mortality is higher for individuals with a lower socioeconomic status than in those with a higher socioeconomic status. The same study concludes that, for the period considered (1990s), socioeconomic disparities in ischaemic heart disease mortality were larger in northern nations than in Southern Europe (Avendano *et al*., 2006).

Beside materialist perspective stating the importance of socio-economic determinants, the CVD mortality is also related with psychosocial factors like daily stress. Using a prospective cohort study, Kivimäki *et al.* (2002), including cases of CVD, behavioural and biological risks, and stressful characteristics of work have proved that employees reporting high job strain and high *effort-reward imbalance* have a twofold higher risk of death from CVD than their colleagues scoring low in these dimensions. Later, Stringhini *et al*. (2011) showed that health behaviours are equally important mediators of the socioeconomic-health association in different cultural settings and that there is a causal chain leading to social inequalities in mortality. The greater the socioeconomic gradient in smoking, unhealthy diet, and physical inactivity is, the greater differences in mortality are. In a recent study, Davis *et al*. (2014) assessed the association of multiple social determinants on poor cardiovascular health by also including key variables of psychosocial factors like daily stress, racial discrimination, and stress due to discrimination. Their results showed that the socioeconomic status indicators and daily stress were generally inversely associated with cardiovascular health. Also, Jood *et al*. (2009), in a case-control study, suggested that the association between permanent self-perceived stress (stress is described as *feeling tense, irritable, anxious, or as having sleeping difficulties as a result of conditions at home or at work*) and ischemic stroke differed by ischemic stroke subtype. Considering the same stress – stroke incidence association, we note that prior similar investigation, conducted by Surtees *et al*. (2007) revealed that a strong sense of coherence (defined as individual’s social stress adaptive capacity) is associated with a reduced rate of stroke incidence, after adjustment for various socio-economic variables, including “social class” as a way of assessing the individual economic status.

Overall, studies conducted either at individual or macroeconomic level, generally prove that socio-economic characteristics are related with CVD, standing out not only the effect of CVD on household-level economic status or macroeconomic level, but also the impact of socio-economic status on CVD incidence and mortality, considering that CVD affects the poor across and within countries as well as marginalised socio-economic groups (European Commission, 2013; Stringhini *et al*., 2011; Fuster and Kelly, 2010).

Turning to the Romanian specific, relating health status with socio-economic characteristics proved to be of actual interest in literature (Incaltarau *et al*., 2015; Horodnic *et al*., 2015; Burlea and Muntele, 2013; Precupetu *et al*., 2013; Bulgaru-Iliescu *et al*., 2012). This is mainly due to the high mortality the CVD are still causing. According to National Institute of Statistics, in 2013 Romania recorded an all-cause mortality rate of 249 deaths per 1000 inhabitants, circulatory diseases accounting for about 60% of all deaths. Stressing on the high share of CVD mortality, a dynamic panel data analysis (on 1995-2012 period within counties in Romania) was used to assess the impact of real wages, as a proxy for socio-economic status on mortality (all-cause and CDV mortality). Hence, it was argued that CVD mortality rather support than undermine the economic performance (Incaltarau *et al*., 2015). However, what is the impact generated by the wage level variations on CVD mortality at the regional level in Romania? As there is no study focusing on this topic, the objective here is to fill this gap.

Data, methods and results

The generally dominant view regarding the health-development relation is that poor economic development is believed to contribute to poor health (Sala-i-Martin, 2005). According to the neo-materialist interpretation, the wage level limits the access of individuals to resources thus exposing them to higher health risks. Therefore, the current article tests the impact of wage level, as a proxy for socio-economic determinants, on CVD mortality, assuming the wealth-health gradient hypothesis (see Deaton, 2002) stating that the lower wages are, the higher the incidence of CVD is. Therefore, looking to the distribution of Romanian regions (NUTIII level) according to the wage level and CVD mortality, it seems that indeed there is a negative relation between them. If in 1996 Hunedoara, Galati and Gorj were the first three counties in terms of medium wage (see figure 1), with over 125% of national average (137, 129 and 125%), they were encountering less CVD mortality (95, 72 and 97% - see figure 3). Contrarily, if Teleorman, Giurgiu, Salaj and Arad encountered the highest CVD mortality with values higher than national average (154, 143 and 130% - see figure 3), in terms of wage they reach less than national average (94, 92, 90 and 86%).

Figure 1 - Monthly medium gross wage 1996 (% national)

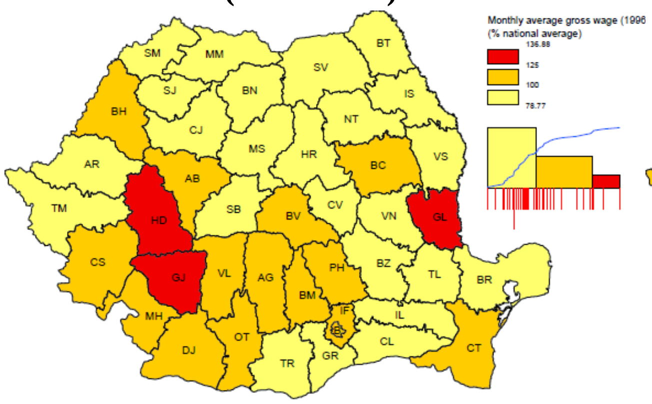


Figure 2 - Monthly medium gross wage 2013 (% national)

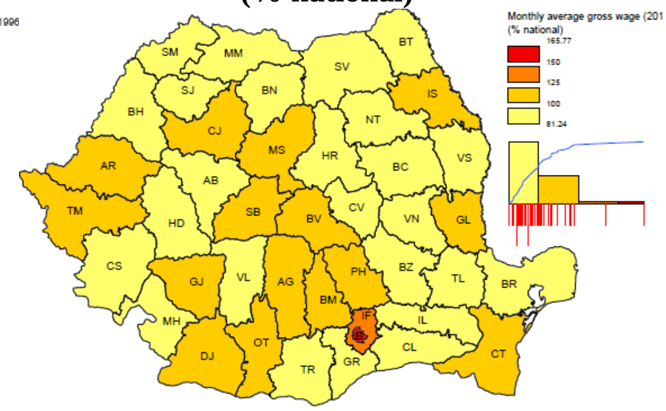


Figure 3 - CVD mortality rate 1996 (per 1000 inhabitants, % national)

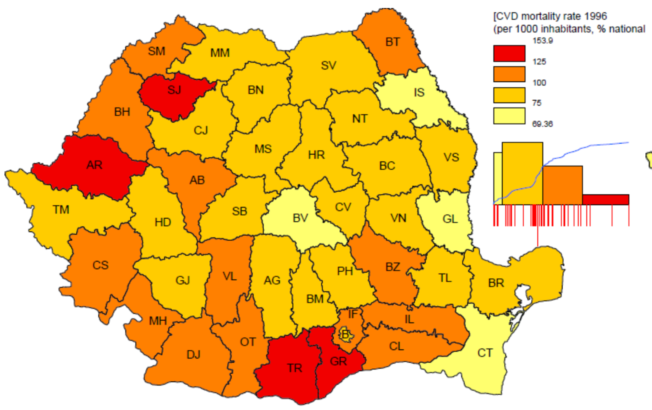
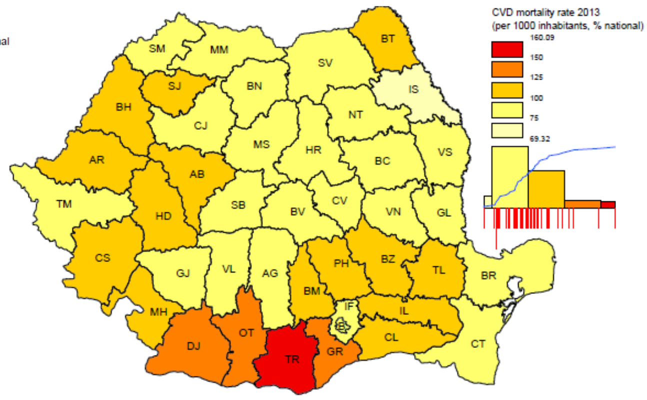


Figure 4 - CVD mortality rate 2013 (per 1000 inhabitants, % national)



Source: own representation using data from the Romanian National Institute of Statistics.
Made with Philcarto * http://philcarto.free.fr

In 2013, as the top has changed due to significant structural changes during the transition period, the inverse relation seems to continue. Thus, if Bucharest and Ilfov fully overcome all the other counties, reaching 166 and 142% of the national medium gross wage, they are facing lower CVD mortality (78 and 86% - see figure 4). It turns the opposite when looking to CVD mortality rate. Teleorman, Giurgiu, Olt and Dolj (160, 148, 131 and 128% - see figure 4), the counties with the highest CVD mortality, also have lower wage levels (90, 96, 100 and 106% - see figure 2)

In order to test our hypothesis, we have performed a panel data analysis using data from the National Institute for Statistics which generally covers the 1995-2012 period (data for Bucharest and Ilfov are starting from 1997 and 1998; data for higher education population has other scattered gaps) (see Table 1).

Table 1 – Data description

Variable	Description
All-cause mortality (*dependent*)	All-cause mortality rate per 1000 inhabitants (National Institute of Statistics)
Cardiovascular diseases mortality (CVD) (*dependent*)	Mortality caused by diseases of the circulatory system (per 1000 inhabitants); causes of death correspond to the International Classification of Diseases - Tenth Revision of WHO (National Institute of Statistics)
Wage	log of monthly average gross wage in real prices (1990 prices, National Institute of Statistics)
Higher education share	People with higher education degree (% of total population of the county, National Institute of Statistics)
Urban population share	Urban population (% of total population of the county, National Institute of Statistics)
Old population share	Population over 65 years old (% of total population of the county, National Institute of Statistics)
Doctors	Doctors (excluding dentists) per 1000 inhabitants (National Institute of Statistics)

The basic specification of the fixed effects model we have used for estimating the effect of economic growth on health condition of population is:

$$CVDmortality_{c,t} = c + \beta_0 wage_{c,t} + \beta_1 X_{c,t} + \gamma_c + \delta_t + \varepsilon_{i,t},$$

where $CVDmortality_{i,t}$ is the mortality caused by CVD in the county c, during year t, $wage_{c,t}$ is the monthly average gross wage in real prices, $X_{c,t}$ includes a set of control variables, γ_c represents the county territory specific time-invariant effects, δ_t are the year fixed effects, and $\varepsilon_{i,t}$ is a stochastic error term. The decision for using fixed effects was based on the results of the Hausman test. We have first tested weather fixed or random effects are suitable or a pooled OLS estimation would be a better choice. Both Wald test and Breusch-Pagan Lagrange multiplier (LM) test (Breusch and Pagan, 1980) indicated that fixed effects as well as random effects are both preferable to pooled OLS. For choosing between the two, the Hausman test was performed showing that fixed effects are required. Heteroscedasticity and serial correlation were both present as indicated by the modified Wald statistic (Greene, 2000, p. 598) and the test discussed by Wooldridge (2002), respectively. Furthermore, cross-sectional dependence was signalised by the Pasaran CD test. Hence, considering the presence of heteroscedasticity, serial and contemporaneous correlation, but also the fact that we are dealing with unbalanced panels, we have opted for using Driscoll and Kraay (1998) standard errors which are assumed to be heteroskedastic, autocorrelated up to some lag, and possibly correlated between the groups (panels). The estimation results are further shown in table 2.

Table 2 – Estimation results regarding the impact of the wage level on CVD mortality in Romania (NUTSIII)

	(1) all-cause mortality	(2) CVD	(3) all-cause mortality	(4) CVD
Wage	-0.811***	-0.785***	-0.142	-0.485***
	(0.214)	(0.151)	(0.219)	(0.157)
Urban share			-0.0852***	-0.0515***
			(0.0169)	(0.0122)
Old share			-0.0265	0.0629
			(0.0640)	(0.0409)
Doctors			-0.495**	-0.560***
			(0.178)	(0.121)
Higher education share			-0.133**	-0.0591
			(0.0549)	(0.0380)
_cons	18.39***	13.71***	18.58***	14.02***
	(1.791)	(1.258)	(1.370)	(0.899)
N	916	916	587	587

Estimation using fixed-effects regression with Driscoll-Kraay standard errors (in parentheses). The maximum lag to be considered in the autocorrelation structure was 2. Significance levels * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

The results provided in Table 2 are showing that wage raising have negatively impacted mortality, confirming the neo-materialist hypothesis. The negative relation between wage level and mortality is showed when considering both all-cause and CVD mortality. A 1% increase in real wage level is supposed to lead to a 0.48% percent decrease in CVD mortality (equation 4). In the first two equations (first 2 columns) we have only introduced the variables referring to mortality, as a proxy for health condition, and both proved to be statistically significant. When adding the control variables, all-cause mortality became statistically insignificant. Although CVD mortality accounted and still does for a considerable share in all-cause mortality (62% in 1996 and 59% in 2013), it seems that variations in wage level can indeed explain CVD mortality, which looks to be more sensitive to wage variation, but not also all-cause mortality.

The model controls for urban concentration, old population, healthcare availability and socio-economic status. A negative relation was shown with urban share, healthcare availability and education level, proving the higher mortality in counties with higher rural areas, with a lower concentration of doctors and a less educated population. Also, as expected, a positive, although statistically insignificant, relation was identified between mortality and counties with a higher share of population over 65 years old.

However, these results are facing several limits, failing to take into account other important characteristics, like cultural context, historical and geographical determinants. For instance, counties like Iasi, Brasov, Timisoara and Ilfov (Bucharest) are facing CVD mortality rates below the national average, despite higher variations in the wage level. This can be explained by the fact that important national universities are located within cities in these counties (consequently reaching high population density) and also because these are more developed in terms of healthcare infrastructure. Also, the study correlates the average wages with CVD mortality without taking into account social inequalities, which can also increase CVD mortality due to perceived relative deprivation as argued by the psychosocial view. Accordingly, future studies that analyse the socio-economic determinants of CVD should be carefully designed in such a manner to include these social characteristics as well.

Conclusions

Previous studies proved that CVD are closely related with socio-economic determinants, affecting the poor across and within regions, and also marginalised socio-economic groups (e.g. because of poor hygiene and limiting access to health care and education). In regions facing rapid socio-economic changes, like the ex-communist space, CVD shortly became the first mortality cause (Pająk and Kozela, 2012). In Romania, CVD is the main mortality cause by far, accounting for around 60% of all-cause mortality ever since the communist regime has fallen. Considering the high share of CVD mortality and their increased sensitiveness to the changes in socio-economic conditions, we have tested for the impact of wage fluctuations, as a proxy for socio-economic status, on CVD mortality evolution in Romanian NUTSIII regions during 1995-2012 period. While wage fluctuations was proven not to be statistically significant for overall mortality, it proved to negatively influence CVD mortality. A 1% increase in real wage level leaded to a 0.48% percent decrease in CVD mortality. Furthermore, a negative relation was shown with urban share, healthcare availability and education level, proving the higher mortality in regions with large rural population, lower number of doctors and a less educated population. Also, although statistically insignificant, the mortality was proven to be directly related to old share, as the share of population over 65 years old. Overall, it seems that all over the transition period CVD mortality was proven to be sensitive to real wage evolution across Romanian regions, confirming the wages are still low, barely ensuring subsistence, and a decrease in wages considerably impacts population health. Of course, this studies have several limits, as it does not control for inequality within regions, testing for the psychosocial perspective, or the differences in lifestyle across the regions in terms of alimentation behaviour, housing or work culture.

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DIMENSIONS OF MULTINATIONAL ENTERPRISES

Maria - Ramona SARBU*

Abstract: *Capital, creating new jobs, innovation, advanced technologies and the know-how transfer to local firms, human resources with a high level of training, effective management capacity, providing the necessary inputs for the evolution of the activity under the best conditions of efficiency, the access of local consumers to a variety of products and services are the main advantages that multinational enterprises (MNEs) bring in the countries where they expand their activities, with a significant impact on economic activities, between national economies. The purpose of this study is the analysis of the main non-financial multinationals in the world, based on the assets held abroad and depending on the transnationality index (TNI) in 2013. In order to achieve the purpose of the current paper we employed data from UNCTAD database and the World Investment Report (WIR) from 2015. Information on multinationals ranked by foreign assets according to the World Investment Report in 2015 show that, based on the TNI, European multinationals, such as the ones in France, Italy, Germany and Norway, have a higher transnationality index compared to multinationals from larger countries, such as the US and China. Among the top 10 European multinationals, the transnationality index reached an average of 55 % in 2013.*

Keywords: MNEs; TNI; social responsibilities
JEL Classification: F23; M14

Introduction

The purpose of the current paper is the analysis of the main non-financial multinationals in the world, based on the assets held abroad and depending on the TNI in 2013.

In the international literature there is a large number of definitions regarding multinationals and different views of specialists who come to establish what is the multinational enterprise, many of them contradictory. Defining the multinational enterprises was not the only issue that gave rise to several divergent views, but also the terminology used to designate these enterprises failed to share a common point of view at an international level. The terminology used in order to designate these as enterprises is highly variable: international companies, multinational enterprises or multinational companies, transnational corporations, global companies.

Dumitriu (2000, p. 62) defines multinational companies as those companies "which generally meet one or more of the following characteristics: domestic production of products developed for international markets and distributed through its own subsidiaries in various countries; cost efficiency by controlling the manufacturing operations in the basic country; international networks of production

* Ph.D. student, Alexandru Ioan Cuza University of Iasi, Romania, Faculty of Economics and Business Administration, e-mail: sarbumariar@gmail.com

and/or distribution of products for the country of origin". Boscoianu *et al*. (2006, p. 38) considers that a multinational can be defined as a "company that engages in international business and performs two essential functions: international marketing, which makes the exchange of goods and services across the national borders, but others than the ones traded domestically; engaging in several economic activities, but at least some of them have to be located in another country or in another countries, different from the country of origin". A more complete definition that takes into consideration the characteristics of the economic, institutional, legal and social-cultural environment considers that "multinational companies appear as enterprises or rather groups of enterprises which operate the activity of production, distribution and marketing in several countries, under the jurisdiction of several governments, in terms of a variety of markets, trade regimes, financial systems, language and culture, designed, organized and conducted on the basis of a common strategy developed on an international, regional, interregional or global scale" (Ignat *et al*., 2006, p. 203). Another point of view concerning the multinational enterprises belongs to Ciobota (2013, p. 48) who considers that "multinational enterprises are established as aggregations made of a parent company and a number of subsidiaries spread on different countries of the world aiming a polycentric marketing".

s seen in the different definitions presented above, there is no consensus regarding the definition of the enterprise or multinational company, all reflecting the diversity and complexity of the multinational enterprises. Over time several perceptions have been formed regarding the presence of multinational enterprises such as that multinationals have expanded globally and became in some cases bigger than the nation-state (Cavanagh, *et al*., 2000). To be noted that this comparison is made in order to highlight the significant dimension that these multinationals reached without undermining the global power of the countries. However it should be emphasized that the comparison between the multinational company's sales and the countries gross domestic product (GDP) are not comparable. The GDP is the sum of the value added and does not reflect the total amount of the sales of the multinational enterprises.

The paper is structured in the following sections: section one provides an analysis regarding the main non-financial multinationals in the world, based on the assets held abroad and on the TNI in 2013, while the second section of the paper presents the responsibilities of the multinational companies in the receiving economies, followed by the main conclusions.

1. Aspects on the main non-financial multinational enterprises

The level of multinational enterprises that generate changes in the global economy depends on the degree of integration of these activities abroad. In order to illustrate the involvement of multinationals abroad UNCTAD used in the non-financial companies sector, the transnationality index, which is determined as the arithmetic mean of three major reports namely: foreign assets to total assets, foreign sales to total sales, and foreign employment to total employment (UNCTAD, 2015, p. 17).

The composite index of transnationality reflects the companies' degree of transnationalization, the expression of their strategies to maintain and refresh their sources of competitiveness and the absolute value in foreign companies express as the size of the involvement in the international production (Mazilu, 1999, p. 95).

Among the largest MNEs in the world, according to the report released by UNCTAD, World Investment Report, in 2015, eight are European multinationals, one multinational is from China and one is from the US. The world's largest multinational enterprise operates in the motor vehicles industry (Volkswagen Group). Three multinationals listed in the top 10 non-financial multinationals enterprises ranked by foreign assets, operate in the utilities industry (electricity, gas and water), two multinationals are in the petroleum industry, two in the motor vehicles industry, one multinational in the aircraft industry, one in the telecommunications industry and one multinational operates diversified activities (Table 1). Also the rise of the multinationals in the petroleum industry and in the aircraft industry must be noted. The industry of utilities, motor vehicles and petroleum concentrates 71 % of the total assets held abroad by the top 10 non-financial State-owned MNEs.

Table 1 – The top 10 non-financial State-owned MNEs, ranked by foreign assets, 2013

(Millions of dollars)

SO-MNE	Home economy	Industry	Foreign Assets	Transnationality Index
Volkswagen Group	Germany	Motor vehicles	176 656	50
Eni SpA	Italy	Petroleum	141 021	70
Enel SpA	Italy	Utilities (electricity, gas and water)	140 396	67
EDF SA	France	Utilities (electricity, gas and water)	130 161	49
GDF Suez	France	Utilities (electricity, gas and water)	121 402	40
Deutsche Telekom AG	Germany	Telecommunications	120 350	62

CITIC Group	China	Diversified	97 739	17
Statoil ASA	Norway	Petroleum	78 185	30
Airbus Group NV	France	Aircraft	77 614	72
General Motors Co	United States	Motor vehicles	70 074	42

Source: based on UNCTAD, 2015 - World Investment Report - Reforming International Investment Governance, p. 17

Information concerning the multinationals on origin countries and industries shows that the transnationality indicator's value is higher for the top multinational enterprises that have as origin countries large states in Europe such as France (Airbus Group NV, EDF SA, GDF Suez), Italy (Eni SpA, Enel SpA), Germany (Deutsche Telekom AG, Volkswagen Group) and Norway (Statoil ASA) and belonging to aircraft, petroleum and telecommunications industry, compared to multinationals in large countries such as the US (General Motors Co) and China (CITIC Group). Analyzing the transnationality index, multinationals such as Airbus Group NV (Aircaft): 72%; Eni SpA (Petroleum): 70% ; Enel SpA (Utilities - electricity, gas and water): 67% ; Deutsche Telekom AG (Telecommunications): 62%; Volkswagen Group (Motor vehicles): 50%; EDF SA (Utilities - electricity, gas and water): 49%; General Motors Co (Motor vehicles): 42%; GDF Suez (Utilities - electricity, gas and water): 40%; Statoil ASA (Petroleum): 30%; CITIC Group (Diversified): 17% recorded in 2013 a TNI level between 17 per cent and 72 per cent. Must be mentioned that from year to year these rankings constantly change. Another important aspect is that this ranking highlights that multinationals that act in industries such as aircraft, petroleum, utilities (electricity, gas and water), telecommunications recorded the highest levels of the transnationality index, while a multinational with diversified activities knows its lowest level (17%).

The purpose of the transnationality index is to make a comparison between the origin market of the corporation and its global market, therefore the transnationality index will have higher values for multinationals which have small or medium origin markets (Voinea, 2007, p. 23). The global dimension of business, their level of internalization, push the ranked multinationals to concentrate complex activities in certain economies and to be present in several states.

2. The responsibilities of the multinational companies in the receiving economies

Under international treaties and agreements it is considered that the main responsibilities of the multinationals are issues related to the contribution to the development of the receiving economy, the development of relationships based on mutual trust with the local communities in the host countries, creating jobs and respecting the rights of the employees, the ties with the business associates, suppliers and customers, ensuring competition and removing the anti-competitive practices, consumer protection, standards in business ethics, removing corruption and bureaucracy, respecting the human rights, the impact of the company's activities on the environment. The host country is able to influence the behavior of multinational companies through measures that can boost their efforts, but host countries expect from the multinational companies as well as from the domestic companies to comply with the national law, also they shall not consider as an advantage the weaknesses of the legal system and of the administration, and they shall not use the practices of unfair competition or encourage the issues of corruption. The main outlined responsibilities of the multinational companies are: contributing to the public revenues of the host country; collaboration with local companies; creating new jobs on the local market and increasing the training of the local human resources and the technological transfer to the host country (Pandelica, 2006, p. 104 – 105).

Ionescu (1996, p. 233-234) considers that the prospects of the enterprise regarding the company "comprise three concentric circles of responsibilities": the inner circle, which includes precise basic responsibilities concerning the effective accomplishment of the economic function namely products, services, jobs and economic growth; the intermediate circle which includes economic responsibilities for exercising the economic function with a sensitive awareness of the changing of social values and priorities such as environmental protection, employment and the relation with the employees, consumer protection and protection against slanders; the outer circle considers the new responsibilities and the still shapeless responsibilities that companies have to assume in order to be more involved in improving the social environment and solving social issues such as poverty and "other evils of urbanization". In time we can observe a higher focus on environmental protection, conservation of energy and natural resources, and the relations with employees and clients, furthermore the audience has expanded perspectives about the involvement of the companies in activities such as reducing the unemployment and the development of health, education, culture and arts.

The advantages resulted from taking social responsibilities are synthesized by Bari (2003, p. 51): ensuring the long-term profit; improving the public image of the company and attracting favorable public opinion. But according to Bari (2003, p. 51), there are also disadvantages to the social responsibilities such as: higher cost that on long-term can bring higher benefits and higher costs that may occur as a result of not taking the social responsibilities; businesses are exclusively owned by the shareholders but there are a variety of shareholders in a company such as employees, customers, suppliers; the time they request could be allocated to the real important aspects of business but social responsibilities are as important as other aspects; this task should be undertaken by the governments but they lose authority in favor of the multinationals; failure to assume social responsibilities by the companies for environmental conservation issues. In this context, Stiglitz (2008, p. 166) highlights a very important aspect, namely that multinationals, in the absence of government regulations and pressure from civil society, corporations have little incentive to protect the environment, in fact, they are stimulated to damage it, considering that this helps them save money.

It should be noted that aside from the companies that do not fulfill their social responsibilities, there are also successful companies and socially responsible such as (Adams, 2014): 3M Company (USA) performing in the manufacturing industry, ABB Asea Brown Boveri Ltd. (Switzerland) with activities in energy, oil and gas, Accenture (USA) conducts business services, Adobe Systems Incorporated (USA) with activities in computer software, AECOM (USA) with activities engineering and design, Capgemini (France) conducts business services, L'Oréal (France) with activities in health and beauty category, Thomson Reuters (USA) performing in the professional, scientific and technical services, Xerox Corporation (USA) conducts business services, which understood the need to perform their social responsibilities by getting involved in improving the education, sports, culture, environment or health.

As companies expand more across the national borders, their nationally and internationally responsibilities grow, making them responsible to the community, employees, customers, business partners, environment. In this regard, the society must also help the companies to fulfill their social responsibilities.

Conclusions

Multinational enterprises are one of the most important factors in economic development, which has determined many states, especially the developing countries to encourage the location of the activities within their boundaries. The factors that determine the development of multinational enterprises are the following: getting the production closer to the customers and to the sales markets; development of international investments; the cost of labor; regulations favorable to foreign investments on the target market: financial and legal aspects, taxes; the achievement of higher performance indicators on foreign markets; non-restrictive regulations regarding the environmental protection.

The purpose of the paper was the analysis of the main non-financial multinationals in the world, based on the assets held abroad and depending on the TNI in 2013. Information on multinationals ranked by assets held abroad according to the World Investment Report in 2015, show that, based on the TNI, European multinationals such as the ones in France, Italy, Germany and Norway, have a higher transnationality index compared to multinationals in larger countries such as the US and China. Among the top 10 European multinationals, the transnationality index reaches an average of 55 per cent in 2013.

This composite index, TNI, calculated by UNCTAD, presents also its methodological risks (Voinea, 2007, p. 24). Given that among the top 10 multinationals ranked by assets held abroad in 2013, only one US multinational is found in the top 10 multinationals and no multinational from Japan, raises some questions.

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CONTEMPORARY ECONOMIC GROWTH MODELS AND THEORIES: A LITERATURE REVIEW

Ilkhom SHARIPOV*

Abstract: *One of the most important aspects of human development is the ability to have a decent standard of living. The secret of the "economic miracle" of many countries that have high standard of living, in fact, is simple and quite obvious. All these countries are characterized by high and sustained development of national economy, low unemployed population rate, growth of income and consumption. There is no doubt that economic growth leads to an increase in the wealth of the country as a whole, extending its potential in the fight against poverty, unemployment and solving other social problems. That is why a high level of economic growth is one of the main targets of economic policy in many countries around the world. This brief literature review discusses main existing theories and models of economic growth, its endogenous and exogenous aspects. The main purpose of this paper is to determine the current state of development of the economic growth theories and to determine their future directions of development.*

Keywords: economic growth; exogenous growth; endogenous growth
JEL Classification:O40; E11; E12; E13

Introduction

Since the beginning of economic science the problem of economic growth has been at the center of its attention. Searching for solutions for this problem supposed finding such factors for supporting economic development, which would provide higher living standards at a constant population growth. It is known that human needs are limitless: when people barely satisfy some, other appear, and so on, indefinitely. The essence of the problem of the expansion of needs is that they tend to be limitless in quantity and qualitative renewal comes up against the limitations of economic possibilities. However, the fact is that the Earth's population is continuously increasing - it took 10 thousand years for mankind to reach population of 1 billion (it happened in 1850). Number 2 billion was reached in 80 years (1930). Doubling this number took just 45 years (it happened in 1975). By 2000, in the world have lived 6 billion people, and by 2050 the population will be 9.5billion (U.S. Census Bureau, 2015). It is clear that such a population growth that began in the mid XIX had to be accompanied by advanced growth of aggregate product satisfying individual and social needs of people.

Nowadays, the issues of economic growth are very topical and an overview of these issues is necessary to start from the earliest concepts and theories that stood at the origins of the modern

* PhD student, Doctoral School of Economics and Business Administration, Alexandru Ioan Cuza University of Iasi, e-mail: ilhomsharipov@gmail.com

theories of economic growth. The main concepts and theories of economic growth are presented in chronological order in the following table (Table 1).

Table 1 – The Economic Growth Concepts and Theories

Growth Concepts and Theories	Emerged
Mercantilism	15th century
Physiocracy	2nd half of 18th century
Classical Theories	1776
Innovative Growth Theory of Schumpeter	1911
Keynesian Theories	1930s
Post-Keynesian (Neo-Keynesian) Theories	1950s
Neoclassical Theories and Exogenous Theory of Robert Solow	1950s-1960s
Endogenous Growth Theories	1980s-1990s

Source: Author's representation

1. Early concepts of growth

Growth theories originate from representatives of *mercantilism* (15th - 17th centuries). The term "mercantilism" was introduced into scientific circulation by the French economist Antoine de Montchrestien (Montchrestien and Billacois, 1999). Mercantilists considered the accumulation of wealth as the main source of economic growth and the main purpose of economic activities of traders and the state (McDermott, 1999).

While representatives of the early mercantilism preferred precious metals and coins, as absolute liquid materials, later mercantilists considered the economic power of the nation in terms of total amount of the goods produced and were in favor of a trade surplus. This trend is partly due to the development of manufacture and domestic markets.

According to the views of the mercantilists (Osipian, 2007), the opportunities to profit from the production of goods and access to credit contribute to the multiplication of wealth. The presence of a sufficient amount of metallic money, particularly of gold and silver coins, provided the necessary access to credit facilities and relatively low interest rates on loans in the country. For this reason, early mercantilists insisted on restricting the export of gold from the country. Thus, the presence of gold and silver coins in circulation was elevated to a necessary fundamental principle of the economic growth, while active trading activity was seen as a prerequisite for such growth. This approach can be considered as historical pattern, based on the simple fact that all the capital at that time was presented as trade capital, while there wasn't any significant amount of industrial capital yet.

Based on the above position, the mercantilists welcomed the export of goods, as it is a source of metal money inflow into the country, and at the same time advocated for the restriction of imports of goods into the country. This policy was designed to ensure a trade surplus, a sufficient amount of metal money, and thus sustained economic growth (Osipian, 2007).

In the second half of the 18thcentury, physiocrats came to replace the mercantilists. *Physiocracy* (from the Greek for "Government of Nature") is an economic theory developed by a group of 18th century enlightened French economists, who believed that the wealth of nations was derived solely from the value of "land agriculture" or "land development" and that agricultural products should be highly priced. Their theories originated in France and were most popular during the second half of the 18th century. The most significant contribution of the Physiocrats was their emphasis on productive work as the source of national wealth. The Physiocratic school of economics was the first to see labor as the sole source of value. However, for the Physiocrats, only agricultural labor created this value in the products of society. All "industrial" and non-agricultural labor was "unproductive appendages" to agricultural labor (Marx, 2000).

Physiocrats considered the economic life as a natural process that has its own internal laws, and established the principle of "natural order." They opposed to state's intervention in economic processes (Osipian, 2007).

2. The classical theory of economic growth

Adam Smith's "The Wealth of Nations" (1776) is usually considered to mark the beginning of classical economics. The most famous and outstanding representatives of classical school are: Adam Smith (1723-1790), David Ricardo (1772-1823), Thomas Malthus (1766-1834), Karl Marx (1818-1883), John Stuart Mill (1808-1873), Jean-Baptiste Say (1767-1832) and others.

The fundamental message in Smith's influential book was that the wealth of nations was based not on gold, but on trade: As when two parties freely agree to exchange things of value, because both see a profit in the exchange, total wealth increases.

Classical economists observe that markets generally regulate themselves, when free of coercion. Adam Smith referred to this as a metaphorical "invisible hand", which moves markets toward their natural equilibrium, when buyers are able to choose between various suppliers, and companies which do not successfully compete are allowed to fail. Smith warned repeatedly of the dangers of monopoly, and stressed the importance of competition (Smith, 1776).

Adam Smith linked the increase in wealth of people with the improvement of the output of the factors of production (land, labor and capital), which is reflected in the growth of labor productivity and an increase in the size of functioning capital. Great attention was attached to population growth, to the increase in the share of workers in the sphere of material production, to investment and geographical discoveries, which contributed to extensive growth.

Smith believed that population growth is endogenous and depends on the available means of subsistence. Investment was also recognized as endogenous and depended on hardworking and savings of the capitalists, and by savings meant the sum of reserves used not for personal consumption, but for industrial purposes. The output growth from land was linked to geographical discoveries and technological improvements in existing land fertility (Lavrov and Kapoguzov, 2006).

The main driving force behind increased productivity by Smith was the division of labor and improvement of technology. Smith saw competition at the heart of economic sector and the national economy as a whole, and believed that the economy can grow rapidly thanks to technological advances, part of which is the division of labor. Smith considered competition as a factor of bringing the system to equilibrium, despite the fact that the results of the process of balancing systems are preferred and positive for society (Reid, 1989).

Views of *Thomas Malthus* (1766-1834) on the economic growth, describing the growth of population and the increase in production turned out to be pessimistic. From the standpoint of Malthus, in the case the proportions between population growth and means of subsistence remains, when the population is growing exponentially, and the means of subsistence grow - arithmetically, we will face the imminent depletion of the Earth, and therefore a bitter struggle for limited resources, the growth of wars, epidemics, hunger, mass disease and so on (Lavrov and Kapoguzov, 2006). As a way out of this problem, Malthus proposed to restrain the growth of the population by the "call to prudence", especially the poorest and the birth of children only if they were provided by the means of subsistence for a decent life. Despite the fact that the calculations of Malthus were not quite correct (he distributed data on the growth of the population in the United States as a global trend, without considering the obvious fact of a large migration of people from Europe to USA, and also failed to predict the degree of development of scientific and technical progress in the field of agriculture), his idea of diminishing returns of factors of production was actively used in the 20th century, in the frame of the theory of population growth endogenization (Lavrov and Kapoguzov, 2006).

David Ricardo (1772 – 1823) was a British political economist, was one of the most influential of the classical economists. Perhaps his most important legacy is his theory of comparative advantage, which suggests that a nation should concentrate its resources solely in industries where it is most internationally competitive and trade with other countries to obtain products no longer produced nationally. David Ricardo argued the idea of the existence of a natural market wages and assumed that the introduction of new technologies leads to a decrease in labor demand, based on special forms of technological innovations. Just as Malthus, Ricardo stressed the need to respect the proportions and singled out the negative and the positive performance of the capital (Rostow and Kennedy, 1990).

The merit of *John Stuart Mill* (1808-1873) in systematization of the classical school, he largely summed up the previous studies in the framework of the "classics". In particular, he completed the classical theory of economic dynamics that considers the long-term economic trends. At the heart of this concept is the idea of the continuous accumulation of capital. According to the theory, the increase in capital leads to an increase in labor demand, that the stable population causes an increase in real wages, which stimulates long-term population growth. If the accumulation of capital is faster than the increase in the workforce, both of these processes can, in principle, last forever. Growth in the number of workers represents at the same time increasing the number of "mouths", thus the increase in demand for consumer goods and especially for food. Food produced in agriculture, which, as we know, characterized by decreasing returns to scale. As a result, problems of declining marginal productivity of capital arise and the fall of incentives to invest.

3. Innovative growth theory of Schumpeter

A significant contribution to growth theory was introduced by *Joseph Alois Schumpeter* (1883-1950), primarily due to his work "Theory of Economic Development», first published in 1911. Schumpeter introduced into the economics the term "innovation" and in a new way considered the significance of the entrepreneur in terms of economic growth (Lavrov and Kapoguzov, 2006).

The starting point, according to Schumpeter, was condition of pure equilibrium or steady state of economy. According to his view, the engine of «development» was the changes in the economic sphere. They were due to various reasons (for example sudden discovery of new sources of supply), but the main was entrepreneurial innovation, which caused the development.

The driving force of development in Schumpeter's theory is the businessman and entrepreneur, innovator, a creative person. He is characterized as being initiative, foresight and risky.

Monopoly, from the point of view of Schumpeter, is a positive thing, as it is achieved by the implementation of new combinations of factors of production, revolutionary changes in technology, in production technology, creation of new products, entering new markets, and so on (Lavrov and Kapoguzov, 2006).

Schumpeter described the nature of economic development as the “carrying out of new combinations”, which he defined rather widely as follows (Maddison, 1982):

1. Introduction of new goods;
2. Introduction of new methods of production;
3. Opening a new market;
4. Conquest of a new supply of raw materials;
5. New organization of an industry.

These specific forms of economic changes he viewed as development.

4. Keynesian and Post-Keynesian (neo-Keynesian) growth theories

Keynesian and neo-Keynesian growth theories have a considerable list of representatives, which includes *John Maynard Keynes* (1993-1946), *Roy Harrod* (1900-1978), *Evsey Domar* (1914-1997), Joan Robinson (1903-1983), Nicholas Kaldor (1908-1986), Luigi Pasinetti (1930 – till now), James Meade (1907-1995). "The General Theory of Employment, Interest and Money" of Keynes was in the basis of all the following Keynesian growth theories.

A key factor in the Keynesian model is the effective demand, specifically that the expansion of aggregate effective demand should contribute to economic growth.

These theories have arisen as a result of development and critical processing of Keynesian macroeconomic equilibrium. Based on economic values such as national income, consumption, savings and investments, J. Keynes developed a theory designed to explain changes in the level of economic activity. He proved that during the recession and rising of unemployment, reduction of income causes decrease in consumption, savings and investments. Therefore, according to John Keynes, in an environment where there is no market leverage to increase the aggregate demand for reviving business activity in the economy, the government should intervene by implementing macroeconomic, namely, fiscal policy, using measures such as: tax cuts or increases in government spending (UN, 2011).

Keynes argued that the solution to the Great Depression was to stimulate the economy ("inducement to invest") through some combination of two approaches:

- A reduction in interest rates (monetary policy), and
- Government investment in infrastructure (fiscal policy).

By reducing the interest rate at which the central bank lends money to commercial banks, the government sends a signal to commercial banks that they should do the same for their customers.

Investment by government in infrastructure injects income into the economy by creating business opportunities, employment and demand and reversing the effects of the aforementioned imbalance.

What is the essence of Keynesian growth theories?

1. All of them are based on the main postulate by John Keynes - aggregate demand. The decisive condition for balanced economic growth in these theories is the increase in aggregate demand.

2. Investment is considered as the main factor of economic growth that increases income (multiplier effect) or increases under the influence of the accelerator together with income growth. All other production factors, such as increased employment, the degree of equipment use, better organization of production are not taken into account.

Keynesian approach considers short-term periods and the specific situation of a depressive economy. However, the followers of Keynes expanded his approach for the long term.

Post-Keynesian (Neo-Keynesian) theory of economic growth has been formulated by American economist of Polish origin Evsey Domar and the British economist Roy Harrod. Their results were so close to each other that they subsequently became known in science as the theory of Harrod-Domar.

Evsey Domar clarified and supplemented the theory of John Keynes - in his theory, investment is a factor not only of income, but also a factor in creation of production capacities, and therefore, the factor of development within production and supply of goods. Domar’s theory determines the tempo at which investment should grow in order to ensure growth of revenue. This tempo is directly dependent on share of savings in national income (the marginal propensity to savings) and the average efficiency of investments.

Hence an important conclusion was made for economic policy: only ever-growing accumulation of capital, i.e. investment growth, provides economy with dynamic balance between aggregate demand and aggregate supply. In order to maintain balanced growth of investments, the state can influence the share of savings in national income or the rate of technological progress, thus determining the productivity of capital.

Roy Harrod's theory is devoted to the study of the growth trajectory of the economy. Therefore, it is based on the theory of the accelerator, which allowed to determine the ratio of investment growth to growth in income. R.Harrod’s theory describes the mechanism of balanced growth, based not only on the functional relationship between income, savings and investments, but also on the analysis of the expectations of entrepreneurs.

The actual growth rate in R. Harrod's theory is determined by the growth rates of labor and capital productivity. If the actual growth rate coincided with a guaranteed (guaranteed growth by Harrod - growth with full utilization of existing capital resources), the economy would have a sustainable continuous development.

The maximum possible rate of economic growth with full utilization of labor force is called in the R.Harrod's theory a natural pace (rate). Stable dynamic equilibrium of the economic system is achieved with equality of guaranteed and natural growth rate in condition of full employment. However, maintaining such equality is possible only with active state intervention.

Thus, during the analysis, R. Harrod arrived at conclusions similar to those obtained by E. Domar. Often their theories, as already noted, are combined into a single theory entitled Harrod-Domar. It implies that, in the technical conditions of production, economic growth is determined by the marginal propensity to save, and the dynamic equilibrium in the market system is inherently unstable, so that maintaining it at full employment requires active and purposeful actions of the state.

The limitations of the theory of Harrod-Domar are as follows:

Firstly, they require a prerequisite for building the analysis within the theory:

- economic growth depends on the growth of investment, and this dependence is a linear function;
- economic growth does not depend on the growth in the use of labor;
- Theory does not take into account technological progress.

Secondly, the limitations of the theory are explained by historical conditions. This theory could adequately describe the actual processes of economic growth in the 1930th and the post-war period, when economic growth really mainly depended on growth of production capacities utilization. However, in the 50th-70th production development prospects depended mainly on qualitative and technological changes, which is reflected in neoclassical theories of economic growth.

5. Neoclassical growth theories and the exogenous theory of Robert Solow

The first neoclassical growth theories emerged in 1950s – 1960s, when attention to the problems of dynamic equilibrium weakened and to the fore came the problem of achieving potential growth not so much due to unused capacity, as through the introduction of new technology, improving productivity and improving the organization of production.

The main representatives of this school are *Alfred Marshall* (1842-1924), Carl Menger (1840-1921), Friedrich von Wieser (1851-1926), Leon Walras (1834-1910), John Bates Clark (1847 –1938), William Stanley Jevons (1835-1882), Irving Fisher (1867-1947) and others.

The American economist Robert Solow (1924-present) together with other scholars opposed the state's intervention in the economy and were up for allowing large firms to achieve their growth potential in a competitive market, by using most of the resources available to them.

The methodological basis of their theories was based on the classical theory of the factors of production, regarding labor, capital and land as independent factors of the formation of national product, as well as on the theory of marginal productivity, according to which, the income derived by owners of the factors of production are determined by the marginal products of these factors.

Neoclassical theorists criticized the neo-Keynesian growth theory on three points (UN, 2011):

Firstly, because they are focused on only one growth factor - capital accumulation, (i.e. investment growth), ignoring all other factors, and in particular those associated with technological progress: the growth of education, skills, improving the organization of production, etc;

Secondly, because they originate from the immutability of the capitals share in income. Neoclassical model, taking into account capital and labor, and assuming their interchangeability, allow the possibility of change in the coefficient of capital. Hence, even in current technical equipment of production it is possible to achieve certain output volume just by applying different combinations of resources;

Thirdly, because the Neo-Keynesians underestimated the ability of the market mechanism for automatic rebalancing. Neoclassical economists, on the other hand, believed that the only competitive market system is able to provide balanced economic growth. This condition also applies to stable monetary system. So they opposed inflationary government spending, considering state intervention to the economy as a factor of stability violations.

The Theory of Robert Solow

Solow's theory was outlined for the first time in an article entitled "A Contribution to the Theory of Economic Growth" (1956), and then developed in the "Technical Change and Aggregate Production Function"(1957). In 1987, for its development, the author was awarded with the Nobel Prize in Economics.

R. Solow proceeds from the assumption that a necessary condition for equilibrium of the economic system is the equality of aggregate demand and aggregate supply. In his theory, aggregate supply is determined on the basis of the production function of Cobb-Douglas, which expresses the functional dependence between production volumes on the one hand, and the factors used and their combinations, on the other. Solow's theory can reveal interconnections between three sources of economic growth - investments, workforce and technological progress.

The theory shows that the savings rate is a key factor in determining the level of capital intensity. A higher savings rate provides a greater stock of capital (i.e., growth of investments), and hence a higher level of production.

Population growth in the Solow's theory is also one of the reasons for continued economic growth in the stable condition of the economy. However, if population growth is not accompanied by an increase in investments, this leads to a reduction in the capital stock per worker. Thus, the theory of R. Solow explains that countries with higher population growth rates have lower capital-labor ratio, and hence - lower incomes.

The third source of economic growth after investments and increase in the number of employees is technical progress. It should be noted that in neoclassical theory by technological progress they do not mean the replacement of human labor by machines, but qualitative changes in the production, such as: increasing the educational level of workers, the improvement of the organization, growth of production scales and so on.

It should be emphasized that R. Solow, out of all his contemporaries-economists came to a closer and better understanding of the economic efficiency of production as a relatively independent factor of economic growth and material source of social progress in the last quarter of the 20thcentury. In the theory of Solow, the technical progress is the only condition for continuous growth of living standards, measured as per capita income. Moreover, R. Solow proposed a formula of "golden rule of accumulation", which determines the optimal level of capital intensity. An equilibrated economic growth is compatible with various norms of savings, but the optimal one will be that norm, which provides economic growth with the highest level of consumption. Unlike traditional approaches, the highest consumption is not determined by the largest possible amount of capital, but by its optimum size and cost effectiveness - capital productivity per unit of product (marginal productivity).

Thus, the theory of R.Solow highlights technological progress as the sole basis for sustainable growth of welfare and allows you to find the optimal variant of growth, providing maximum consumption.

6. Theory of endogenous economic growth

A new stage in the development of the theory of economic growth occurred in the 80-90s., which allowed to talk about the "new growth theory". It reflects the impact of imperfect competition and the role of possible changes in the profit rate. And most importantly - the scientific and technical progress has been considered as an endogenous, growth factor generated by internal causes. For the first time, in formal mathematical and economic models, the American economists *Paul Romer* (1955-till now) and *Robert Lucas* (1937- till now) hypothesized about the endogenous character of the most important technological innovations based on investment (contribution) in technological development and in human capital. Endogenous growth models look similar to the neo-classical ones, but they differ significantly in initial assumptions and conclusions (UN, 2011). On the basis of the Solow model, the state with the help of economic policy instruments (such as changes in taxation, government spending) is not able to provide long-term impact on the growth rate. The impact of the state on economic growth is only possible through the impact on the savings rate. As noted by P. Romer: "In terms of advice to politicians, the growth theory had little to offer. In theory, with exogenous technological change and exogenous population growth did not matter what the government does" (Romer, 1989a, p.51). Endogenous growth theory overcomes this shortcoming of neoclassical theory. First of all, they reject the neoclassical premise of diminishing marginal productivity of capital, assume the possibility of production scale effect throughout the economy, and often focus on the impact of external effects on the profitability of investments. Positive externalities act as an important prerequisite.

In the theories of endogenous growth, technological progress is not the only possible cause of economic growth in the long term. The value of intensive, high-quality determinants of economic growth (parameter A in neoclassical theory) is defined in the theories of endogenous growth with the following factors:

- The quality of human capital, which depends on investment in human development (education, health);

- Creation of the necessary conditions and prerequisites for the protection of intellectual property rights in the conditions of imperfect competition;

- State support for the development of science and technology;

- The role of government in creating a favorable investment climate and attracting new technologies.

Therefore, the theories of endogenous growth in contrast to neoclassical ones are in favor of state's intervention in the development process. These theories can be divided into two groups. *The first group* includes theories in which human capital emerges as an important determinant of economic growth. These are the theories of *P. Romer* (1989b) and *R. Lucas* (1988).

A key factor in the endogenous growth theory of Paul Romer is the variable called "knowledge" or "information". It assumes that the information contained in the inventions and discoveries are available to everyone and can be used at the same time. The Romer’s theory assumes that the total amount of human capital remains constant during the considered time interval. It is only possible its redistribution between the sphere of production and R & D (research and development activities) in accordance with the function of consumer preferences. The basic idea of the theory of Romer is as follows: "there is an exchange between consumption today and knowledge that can be used for the expansion of consumption tomorrow." He formulates the idea as "research technology," which produces "knowledge" from the past consumption. Thus, the rate of economic growth is in theory of Romer directly dependent on the value of human capital, focused in obtaining new knowledge. In reality, this means that the sphere of research affects the economy not only directly through the application and development of new ideas. Its existence is a necessary (but not sufficient) condition for economic growth, because it provides human capital accumulation. The theory of Romer implies that countries with greater accumulation of human capital will have higher rates of economic growth. Therefore, according to this theory, the development of free international trade will also contribute to higher growth, since the exchange of products expands the boundaries of the economic system and thus leads to an increase in the total human capital.

In contrast to the Romer’s theory, in the theory of Robert Lucas, accumulation of human capital is a strong economic process that requires certain resources, and is the cause of alternative costs. Lucas suggests that people can choose one of two ways to spend the time: to participate in current production or to accumulate human capital. In fact, the allocation of time between these alternative ways determines the rate of economic growth. For example, a decrease in time spent on production, leads to a reduction in the current product output, but at the same time with accelerated investment in human resources increases the product output growth. Thus, the distinguishing feature of theories of this group is the inclusion of the education factor and human capital in the production function.

In *the second group* of theories, R&D is a key factor of growth. So, the theory of *J.Grossman* (1953 – till now) and *E.Helpman* (1946 – till now) describes the effect of endogenous high-tech innovations to economic growth rates (UN, 2011). On the example of two countries trading with each other, these authors, in particular, have shown that subsidies for R&D in a country that has a relatively scientific and technical excellence, there will be recorded an increase in the overall rate of economic growth. Protectionist trade policy can contribute to economic growth of countries with a lower level of R & D, however, has the opposite effect if it is carried out in the country with a high scientific and technical potential. The theory takes into account the possibility of inflow/outflow of capital for R &

D funding and predicts under certain conditions, the formation of transnational corporations. This group also includes the theory of endogenous technological progress of *P.Aghion* (1956 – till now) and *P.Howitt* (1946 – till now). According to this theory, economic growth is driven by technological progress, which in turn is ensured by competition between firms, generating and implementing long-term products and technological innovation. Each innovation brings to market new interim goods (product, technology), which can be used in a more effective production of goods than it was before. The main motivation for the firms within the research sector is the prospect of monopoly rents in the case of successful patenting of innovations. This rent covers costs associated with the development and implementation of innovations. Thus, a critical role in determining the rate of economic growth plays the arising endogenously flow of professionals between the sector of interim goods production and the R & D sector.

Thus, endogenous growth theories allowed formalizing the relationship between the mechanisms of economic growth and the process of obtaining and accumulating new knowledge, which is materialized in technological innovations. These theories examine the reasons for the differences in growth rates of different countries, the effectiveness of various measures of the state's scientific, technical and industrial policies, as well as the impact of the processes of international integration and trade on economic growth.

Final remarks

Having reviewed the basic theories of economic growth, we can conclude that the current theoretical analysis of economic growth is carried out in three main directions: post-Keynesian, neoclassical (exogenous) and endogenous.

Post-Keynesian (neo-Keynesian) theory of growth emerged on the theoretical and methodological basis of the teachings of John Keynes's macroeconomic balance. They are characterized by an approach towards: growth from the part of aggregate demand; the key role of investment in the economic growth and the active role of economic policy. Within the neo-Keynesian direction stands out above all the growth theory of E.Domar and R.Harrod.

Neoclassical growth theories built on the premise of achieving a stable equilibrium without government interference. Exogenous theory of R. Solow can reveal the relationship of three sources of economic growth - investment, workforce and technological progress. The theory is based on the "golden rule" of accumulation, according to which an outflow of capital should not exceed the marginal product of capital.

In his theory, Robert Solow highlights technological advances as the only basis for sustainable growth of welfare and allows to find the optimal variant of growth, providing a maximum consumption. However, technological advance in the theory of R. Solow is regarded as exogenous factor, and therefore does not explain it.

A new milestone in the development of the theory of economic growth began in 80s – 90s, which allowed us to talk about the "new growth theories". In these theories, technological progress came to be regarded as an endogenous factor of economic growth, generated by internal causes. For the first time, the American economists Paul Romer and Robert Lucas advanced the hypothesis on the endogenous nature of the most important technological innovations, based on investment in technological development and in human capital.

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WILL THE EU`S BOAT FLOAT IN MURKY POST-CRISIS WATERS? AN ASSESSMENT OF EU`S ECONOMIC AND FINANCIAL AGENDA

Adrian Daniel STAN*
Brindusa Nicoleta PINCU**

Abstract: *The EU multilevel governance is a theoretical standpoint that allows us to measure the costs of nowadays European integration. This article addresses current issues of the EU institutional Agenda regarding the logic beyond the changing nature of the economic climate. Our contribution aims to analyze the impact of economic and financial reforms upon the institutional framework of the European Union. In this article we will explore how the post crisis economic agenda is being forged and which are the consequences of following different integration paths. It is also important to determine if a working scenario build around the Community method will address pressing issues in a successful manner or will the intergovernmental standpoint prevail? Is this crisis close to a positive response, is the EU economic governance an endangered construction, or can it be the rise of a great opportunity for the European integration process, a new boost each member state seeks and might nurture?*

Keywords: governance; crisis; Community Method; Six Pack & Two Pack; fiscal reform.
JEL Classifications: E61; F15; F36; O23; P11

Introduction

The sovereign debt crisis is considered one of the most challenging issues for EU`s capacity of defending its economic governance. Although there has been a serious shift towards inter-governmentalism given EU`s main policy initiatives, orientations and decision-making process itself, the supranational initiatives complemented the landscape rather efficiently.

The European economic crisis has shown the main weaknesses in the Economic and Monetary Union system. Although the policy surrounding the euro monetary zone is fairly centralized, the economic policies that compliment this area have been quite decentralized.

During the economic crisis many states in the EU have accumulated deficits and financial debts. The market is the place from where the states get their capital. Liquidity crisis for states outside the Euro zone has built mistrust in terms of foreign investments in less developed countries. It is expensive for governments to borrow money because increasing deficit means increasing debt. Market does nothing at one point and too much on other moments, so, in order to have market discipline, we need more information about its real status.

* PhD in International Relations and European Studies , Department of Contemporary History and European Studies, Faculty of History and Philosophy , Babes-Bolyai University, Romania, e-mail: adrian.stan@ubbcluj.ro
**PhD C, Institute for Cultural Diplomacy, Faculty of European Studies, Babes-Bolyai University, Romania, e-mail: brindusa.pincu@gmail.com

This paper will start by evaluating the potential of coordinated action in the realm of economic and fiscal evolution of the EU, providing a project oriented, as well as an institutional approach. The Stability and Growth Pact and the Monetary Union architecture will be key references of this evolutionary process. Another center of interest for this paper relates to the most influential initiatives that shaped the EU`s fiscal policy, the analytic process being convergent to the stage of reform that were initiated during and after the economic crisis. The main focus of this paper is driven towards how the Community-methods helps shaping the new horizons, and evaluates the real potential of this mainstream approach.

1. Stability and Growth Pact, a vision that integrates

The Stability and Growth Pact entered into force in 1999, being designated to enforce the limits set by the EMU. Its aim was to keep deficit below 3% from the GDP of each member state and the debt below 65% from the GDP. This initiative wasn`t able to properly address the triggers for Ireland and Spain negative economic trends, but there were also states such as Germany and France which exceeded the 3% limit. That is why in 2003 the EU imposed the so called Excessive Deficit Procedure and, by 2005 it had already established country specific mid-term objectives. The Stability and Growth Pact was introduced in order to provide a series of fiscal rules and mechanisms of monitoring the progress upon the economic and fiscal policies of the Member States. The Pact was revised in 2005 because the EU economic governance was still showing weaknesses. Just because the Community method behind the SGP didn`t prove very efficient, there are critics recommending multilateral surveillance or economic policy complimented by country specific medium term objectives, suggesting a soft governance instead of hard rules or sanctions (Mabbett, Schelke,2014, p.26).

The Stability and Growth Pact had both a preventive and a corrective arm. Since the Commission evaluates the programs, it is highly important how strong the signals sent by this institution are in terms of sustainability. There were countries such as Greece or France that pushed Commission`s recommendations to be re-written. In the financial market, rescue measures take the pressure down from the politicians, having one main effect: slowing down the reforms.

Since the European Central Bank is not allowed to modify the national exchange rates on its own, it buys assets from the banking sector. Those assets remain on the ECB balance, causing vulnerability. The ECB also acts as a benevolent dictatorship because the Parliaments and politicians generally hide behind this institution when difficult decisions are to be made. In times of crisis, there is no such thing as a soft adjustment because first stage of the reformation process is always the most difficult.

One cannot imagine an active role for the EU without some clearly defined institutions that are being invested with authority in order to be efficient. The criterion of efficiency needs to be complimented by credibility in order to build a rational consensus regarding EU`s mission to bring prosperity in the lives of its citizens. It happens very often for the EU to delegate some of its functions to different organisms or institutional bodies. But even at this level, there are a few commitment problems. Such problems can derive from the fact that some policies are not backed up by policymakers in different stages of the negotiation process. Another commitment issue can be generated by the fluctuations in costs and benefits that occur over time. In the case of an institution which is not capable of fulfilling its tasks properly, the pressing issue is then advanced to other institutional complexes to be dealt with. The consensus depends also upon the nature of the negotiation process being a tradeoff between two main criteria: decisiveness and inclusiveness (Thomson, Torenvlien, 2011, p.143).

In order to maintain the fiscal balance due to the economic crisis, the EU has decided to reform the European Monetary Union (EMU). In order to achieve its macro stability goals, the EU decided to delegate its monetary policy to the European Central Bank, even if this decision was far from the Community method spectrum. By the time the crisis emerged, it was clear to all European states that the supranational institutions of the EU needed full support from the national state and other major EU market regulating organisms in order to coordinate the fiscal and monetary policy.

2. Fiscal initiatives that broaden the stability spectrum

The Stability and Growth Pact had to support the Monetary Union in achieving its long term objectives. Starting with the Maastricht Treaty the structural deficit of the Member States was forced to remain within a certain pattern, the Commission being the supervising body able to follow EU states' evolution. Only for the cases with excessive deficit, the Council recommended some corrections to be implemented. In case the deficit is extended within a year time framework, it is Ecofin that issues recommendations and decides penalties (Hodson, 2010, p.4). This Stability and Growth Pact wasn`t strengthened enough and over the years its enforcing lacked in many states.

In order to increase financial solidarity among Member States, a few more fiscal initiatives were placed into action, such as: the European Financial Facility and the European Financial Stability Mechanism. These 2 initiatives were replaced by the European Stability Mechanism (ESM). This

Stability Mechanism, being an intergovernmental initiative, has become a permanent international institution, whilst having a 500 billion euro lending capacity. In order to have a better coordination of economic policies, the European Council in its 2010 session adopted ``the 2020 Strategy``. Furthermore, in March 2011, ten Eurozone countries and 6 other Member States adopted the Euro Plus Pact.

These initiatives were followed by the Compact for Growth and Jobs in June 2012. This Compact addressed problems such as: unemployment, investment policy in vulnerable areas, social stability and continuing growth. Needless to say, these initiatives shaped EU`s capabilities also from a legal perspective. The legal governance of this new economic and fiscal reform combines provisions from international law, EU treaty law, EU secondary law and, of course, soft law. Having so many legal frameworks combined, one can assume that we deal with incumbent provisions and competences.

The degree in which this new regulations affect Member States is also an issue. If the Six Pack regulations target all 28 Member States, SEM only addresses 18 states (which have the euro currency) or European Fiscal Compact which targets only 23 states. The coverage of these legal provisions still leaves open spaces for those that choose to opt out.

The economic and fiscal reforms also involved the institutional framework of the EU. Coordinating a large scale economic policy means dealing with different national systems, states which could block the reforms and consensus reached within the Council. The vast majority of economic anti-crisis measures have been an expression of inter-governmentalist logic. The Commission s proposals have been counter-balanced very easily, when the European Parliament still played a secondary role during this reformation process.

Although initiatives such as Euro Plus Pact and Fiscal Compact remain strong intergovernmental signals during the reformation process, institutions such as Euro group, the Council of Euro Area and even the Commission managed to be successful pushing forward strong initiatives such as the `Six Pack` and the `Two Pack`, both representing a huge step in setting the equilibrium towards the Community Method. Still, the role of the Parliament is quite week although, its developing potential before the crisis suggested another evolution path. The Parliament managed to push the reform further in a technocratic manner, but failed in the regard of EU s procedural and indirect legitimacy.

3. Six Pack and Two Pack, an assessment for a coordinated package of fiscal reforms

The crisis has led EU Member States to advance rescue and financial stability programs for the Eurozone. These plans were backed up by treaties and other legal measures. In order to obtain macro stability and economic convergence, the EU has imposed 2 new regulations called the Six Pack, in 2011 and the Two Pack, in 2013. These 2 initiatives were the most drastic economic plans since the European Monetary Union was launched in 1997. But which were the main areas targeted by this new economic recovery framework?

First of all, the EU needed a clear economic and financial surveillance system in order to stop the spreading effects of the crisis. That was equivalent to finding the firsthand causes that generated the crisis. Isolating the problems was the most difficult stage, as the counter spill-over measures were placed into effect. In 2011, the European System of Financial Supervisors emerged, comprising the following authorities: banks, insurance companies, markets and financial services. Then the European Systemic Risk Board appeared, having an important role in balancing the EU Stability and Growth Pact.

The new fiscal governance in the EU can be better perceived as a combination between forms of governance, based by rules and other forms, based by coordination. Both this forms are deeply rooted in the way every major policy is consolidating the accountability of EU` s institutional system.

In order for the EU to advance better fiscal policies, there are some indicators that might impose some sort of a balance. Having independent fiscal institutions is a criterion of how to provide a better assessment to the whole spectrum of policy implementation. The role of independent fiscal bodies has been enriched by the establishment of the Memorandums of Understanding. Also, the fiscal rules should be represented more in terms of their concrete numerical status. Another key asset of imposing fiscal discipline is related to the consolidation of the budgetary frameworks, their structure addressing mainly a medium term perspective (Bracke, Martin, 2012, p.43).

The Six Pack was the Parliaments` and EU Councils` answer to tackle, in an organized manner, the effects of the crisis. The 5 Regulations and a Directive comprised in the Six Pack were directed at addressing the convergence between the EU and the Eurozone, in order to remove potential threats and reinstate corrective mechanisms within the EU`s economic governance. The Six Pack together with the Two Pack aimed at addressing the structural heterogeneity of the EU, in order to make governance reform feasible. These 2 packages bring forward some vital changes to the European economic governance.

The Six Pack offers the EU the capacity to sanction the Member State that does not comply with its fiscal policy rules. The key word here is keeping deficits below a threshold. The Council will be the institution obliged to impose sanctions in case the situation worsens. There are many impediments that could raise disagreement, but the EU institutions have the means to tackle them properly, mainly through coordination. Very important within the framework of the Six Pack are the medium term objectives. Having well defined targets on economic and fiscal policy represents a great step forward on behalf of how the preventive arm of SGP is put to action.

4. Community-method or Is this the Path to follow?

Another instrument for fighting EU`s economic crisis is the mechanism of peer review. This instrument is used mainly as a source of normative elaboration, being also incorporated in the country specific recommendations design. Such specific recommendations, despite de fact that they have a quasi- legislative nature, were used to advance the establishment of the European Semester.

The political will of the Member States should enforce the Economic Monetary Union, by consolidating a larger EU budget and a broader transfer of fiscal policy to the supranational level. Although fiscal discipline is perceived as a domestic arrangement, the transfer of responsibilities to the EU level could represent a means of reducing pressure upon the nation state.

The multilevel governance should advance solutions to consolidate the fiscal and budgetary stability of each Member State, together with addressing such policies in a legal if not constitutional manner.

Decreasing public debt with 5% annually was a serious change the proposal has addressed, together with introducing a new macroeconomic surveillance mechanism. EU Member States will have to make public their medium-term fiscal plans and they should cooperate with the Commission in this regard. Another major upgrade of these proposals was the introducing of an ex-ante coordination mechanism called ``European Semester`` that allows assessing both fiscal disciplinary, macroeconomic stability and structural reforms. The European Semester finds its roots in the economic integration and employment policy coordination associated with Lisbon Strategy (Copeland, Papadimitrou, 2012, p. 29). Regarding the problem of excessive public deficits, states that confronted this problem will have to propose an economic partnership program or an adjustment program. In case these states don`t manage properly their deficits, a wider scheme of sanctions is to be set in place, the sanctioning measures being entrusted to the Stability and Growth Pact. The goal of these measures was the harmonization of national fiscal framework of the Member States.

The majority of the Member States, with the exception of the UK and Czech Republic adopted the Treaty of Stabilization, Coordination and Governance in the Economic and Monetary Union (the so called Fiscal Compact) which entered into force on January 1st, 2013.

The EU heads of state also adopted the Treaty of Stability, Coordination and Governance in the Economic and Monetary Union (TSCG). This treaty was the result of a compromise, being an intergovernmental initiative. This treaty aimed at balancing government budgets with a structural deficit below 0.5% of GDP. The Commission will be responsible for creating a convergence calendar for the member states, in order for them to reach their reference level. In terms of national debt, member states will have to present ex ante reports. The treaty introduced also a numerical criterion for debt reduction (1/20 rule) for countries exceeding 60%.

As a step towards fiscal and monetary governance, euro area states have decided to organize summits to deal with problems concerning this space. The summits were programmed to take place in Brussels, twice a year. Placing the ``Treaty on Stability, Coordination and Governance in the Economic and Monetary Union`` to action gave an early start to the European Stability Mechanism.

The Fiscal Compact (formally known as TSCG) generated lots of tension among the Member States first of all, because it wasn`t included in the treaties. Secondly, the role of the Parliament was rather marginal in the consolidation of this Fiscal Compact. This treaty is not a serious upgrade compared to the Stability and Growth Pact, its measures received lots of critics in terms of vagueness and ineffectiveness, failing to address the current crisis (Marcellino, 2012, p.17).

The Treaty on Stability, Coordination and Governance is a strong statement on behalf of intergovernmental logic, offering to some extent more powers to the European Council and the Euro group. The member states themselves started to play an important role on choosing a right path to address the issues emphasized by the economic crisis, the states becoming key players in the EU policy process (Dehousse, Thompson, 2012, p.114). The role of the Community method in deepening the integration process is though challenged by different forms of active participation to the agenda setting.

As said before, we are talking about the Community method when the leading role in terms of policy and governance belongs to the European supranational institutions. The Community method is opposed by the intergovernmental logic or the open method of coordination.

The Community Method is also challenged by other forms of action that do not follow strictly EU legal solutions. The TSCG and the ESM relate mainly to offering financial assistance to states on condition that they implement a series of reforms. These two international treaties were not adopted by all Member States and perceived as crisis responses, they followed a different path than the one provided by the Community method.

The EU still needs further legal action in order to tackle its fiscal and monetary reforms. In the case of the Stability and Growth Pact there is no need for domestic implementation provisions because the Pact is directly applicable to Member States. Nevertheless, in the case of TSCG, there is a need for sharp provisions and a good implementation methodology, so that the Member States need domestic law to be able to assume it. Although it operates beyond EU law, the TSCG is enforced by using the European Commission and the Court of Justice of the EU (Peers, 2013, p.9).

In order to have a better understanding of how Community method has been used in dealing with the crisis, we should take into account the distinction made by J. Weiler between decisional and normative supra-nationalism. The first concept suggests that the dynamics and process of rulemaking are related with supranational institutions. The second concept stresses upon the role of rules and hierarchy, the accent being placed upon the judicial institutions (Weiler, 1981, p.266). The Community method is better described as a rule based governance.

The Community method comprises in itself the essence of the EU`s integration process seen as a dynamic and historical construct, being for decades the ideological vehicle for those who wanted to boost a more consolidated role of EU`s institutional core. The Community method is clearly the expression of the supra-nationalist movement. The European Union shows in its evolution different methods and paths in dealing with integration and policy making. Besides the Community method, Wallace identifies 4 other policy modes, such as: regulatory mode, distributional mode, policy coordination and intensive intergovernmentalism (Wallace, 2010, p.79).

The economic crisis has also determined a decentralization process that led to accessing the intergovernmental logic. The Community method placed its fingerprints upon the Six Pack proposals that offered a supranational response to the economic crisis. The Commission was the institution behind the Six Pack, and the option to bring this package forward was aimed at addressing two main themes: the fiscal policy and the macroeconomic imbalances.

The Commission managed to consolidate its role in shaping a prudent fiscal policy-making, being capable to give warnings in case of serious deviation. This institution also extended its competence in triggering the corrective arm of the Stability and Growth Pact. Through its regulations, the Commission has decided over the financial sanctions derived from the Stability and Growth Pact, together with extending its consultations with national actors regarding budget framing.

The European Council also provided a set of proposals to fortify the role of economic governance. The proposals took the form of Van Rompuy Task Force and they tackle similar issues with the Six Pack.

The Task Force package stressed upon extending financial and political sanctions in the Stability and Growth Pact. Another focal point of this package concerned the reducing debt criterion combined with activating the sanctions earlier. The proposal included also a macroeconomic surveillance system, able to detect abnormal behavior of the markets. In terms of economic coordination, the ``European Semester`` concept was able to cover this field. Creating a crisis resolution mechanism to act in the medium term was another aspect that guided this proposal. The crisis management mechanism couldn`t be efficient without addressing sensitive issues at national level. For that particular reason and to be able to harmonize response plans, Van Rompuy Task Force advanced the idea of creating a national level institution responsible for independent analysis of domestic financial and economic policies.

The European Parliament has also adopted a document of its own, making some changes in the proposals that other institutions tried to cover, in order to contain the effects of the economic crisis. Among these proposals, a few have proven to be highly important in dealing with the economic crisis consequences. First of all, the European Parliament decided to include the European Semester into legal texts and to expand the Commission`s role in requesting more information and conducting spot checks on Member States. A fine quantum was established for states that provided fraudulent data, its value was placed at 0.2% of GDP and also a sanction of 0.1% GDP was proposed for the states that do not implement the recommendations. A system of public hearings with finances ministers was to be implemented, as well as a surveillance of macroeconomic imbalances, the former task being performed by the Commission.

Conclusions

The reform of EU fiscal policy shifts progressively from sanctioning deficits to long term sustainability of public finances. After the economic crisis the system become more regulatory.

Imposing fiscal discipline to tackle the effects of economic crisis hasn`t been an easy task. Nevertheless, building strong surveillance mechanisms and constant monitoring shows that the equilibrium can be achieved. The Commission was held responsible for its weak reaction in tackling the true causes of the economic crisis. Also, its tendency of reducing budgets was perceived not as the best initiative to deal with the crisis challenges. The vast majority of fiscal surveillance packages advanced during the economic crisis managed to tighten the fiscal constraints on Member States.

The EU is still searching for the best settings for its fiscal policy. During the economic crisis, when major deficits were accumulated, the Member States failed to impose discipline upon each other, also because the program of measures that was to be implemented could have unbalanced their own welfare.

The European economic and fiscal crisis needs to be address with solutions from within the system. The European Central Bank still has the ability to trigger an important perspective change upon the banking system that caused so much damage to the welfare of the European citizens in general. Offering constant bailout plans without fixing the real economy and the markets, just doesn`t build enough bridge to direct cash upon and the money simply vanishes from the real economy that needs to boost itself.

Yet again, a consensus is needed among the EU Member States on who to recapitalize the banking system, not only in severely affected states such as Greece, but also in Spain, Portugal, Italy and in other Member States where the banking sector shows weaknesses impossible to tackle by a short term agenda. Tasting the fruits of the economic and financial crisis, European states understood that burden sharing and solidarity limits can only be stretched so far, but in order to keep the EU`s boat floating a deeper integration is needed.

Although the fiscal surveillance mechanism seems to be much more sensitive to negative evolutions, the national tax payers are the ones that suffer from the increased pressure upon their markets. On this particular matter, harsh austerity programs cannot produce any good for the European citizens, and that is a proven fact throughout the EU.

The future plans to address the fragile economic and fiscal equilibrium in Europe should be more emphasized by a logic derived from the Community method, with a strong Commission commitment and an even stronger ECB to guide the sustainability of the EU markets. Such a choice will illustrate also the stability of the Political project of the EU, making the Grexit or the Brexit just theoretical possibilities but not factual realities.

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THE EU AS REGIONAL AND GLOBAL PLAYER

Oana Emiliana TATARCAN*

Abstract: *European Union is a family of democratic European countries working together to improve the lives of their citizens and to build a better world. Family squabbles and occasional crises are the headlines, but away from the cameras the EU is a remarkable success story. Moreover, it is the biggest donor of development aid in the world and has pledged that he would be willing to collaborate and provide support as long as it will require member needy. The EU needs to strengthen its global presence and to respond more quickly and effectively to events that occur frequently. The European Union could be a model to determine the final disappearance of the state system and its replacement by a new community centers and stronger political and economic networks.*

Keywords: globalization; state; conflict; development; economic
JEL Classification: F50

Introduction

The European Union is the biggest donor of development aid in the world and has pledged that it will be willing to collaborate and provide support as long as needy states require it. We chose to study this topic because we believe it is an issue of major importance by the fact that EU development policy concerns not only space but also that of European third countries, which gives it worldwide notoriety. Policy Development Department is not only economic development, this means development and progress in all social levels taking into account the political, technological, political and economic. The welfare and world peace are closely related to a continuous and uniform development, not only in Europe, not just in America but also around the globe.

European Union (EU) is unique. It is not a federal state like the United States of America because its member countries remain independent sovereign nations. EU does not fit it a purely intergovernmental organization like the United Nations because the member countries do pool some of their sovereignty - in this way, collective power and influence far greater than if it were acting on own. They pool their sovereignty by taking joint decisions shared institutions such as the European Parliament, which is elected by EU citizens, and the Council, which represents national government. They decide on the proposals presented by the European Commission, which represents the interests of the EU as a whole. States were the main actors of the global system for more than 200 years. "The study of international relations has been studying for a long alliance, changing characteristics of

* PhD Candidate in Political Science, Alexandru Ioan Cuza University of Iasi, Romania, email: oana.tatarcan@gmail.com

cooperation and conflict, as well as fluctuations in the balance of powers between and within states.” (McCormick, 2006, p.1)

The European Union could be a model to determine the final disappearance of the state system and its substitution by a new community centers and stronger political and economic networks. Union is more than just a common international organization because it has more power over its members but is not yet a state or a super state. The European Union is a voluntary association of countries where decisions are taken as a result of negotiations between the leaders of the member. International cooperation has resulted in the development of many methods and systems for promoting cooperation. The most common aspect was the creation of international organizations. "International organizations are gatherings in which governments meet, share opinions, negotiate and reach agreements." (McCormick, 2006, p.5). Organizations do not have the authority to implement its decisions, may not impose penalties or other sanctions to their members than those agreed upon by all members.

The power that holds enforceable EU and its institutions have a low degree of independence, their task is mainly Member States' targets. Its institutions have the authority to legislate policies that are binding on Member States, European law precedence over national laws. The European Union has created internal single market through a system of laws and regulations guaranteeing the freedom of movement of persons, services and capital goods. He developed common policies on trade, agriculture, and fishing. It also took steps to implement a European policy for European development. European Union (EU) is a family of democratic European countries working together to improve life for their citizens and to build a better world. Family squabbles and occasional crises are headlines, but away from the cameras the EU is actually a remarkable success story. In just half a century, the EU has brought peace and prosperity in Europe, a single European currency (euro) and a "single market" without frontiers in which the free movement of goods, persons, services and capital. The European Union has become a major trading power and a world leader in fields such as environmental protection and development aid. No wonder that the number of Member States increased from 6 to 28.

1. Globalization counteracts European Union game

As globalization has become a reality of the contemporary world, it has become the most controversial concept in economic literature and politics, national and international. The reality today demonstrates that we live in a globalized world, however, there is still no consensus on what globalization means. Usual sense of the concept of globalization focuses on what is the general condition of globality, or the universe of meanings irradiated by globalism. If the state of globality is about universal issues, such as underdevelopment, poverty or social pendant, with no international regime failed to provide operational solutions. As for globalism, it expresses a stage of evolution in which an actor interdependency of international life has a leading role in the management of the planet's resources. (Cojocaru, 2009, p.4). Overlapping sense of globalization on the state of globality, send this concept in the category of those who always accompanied confronting humanity with itself: what is, what it is, what can do and how he manages to do.

Essentially, „globalization is the process of functionalization, on the basis of global economic competition, which in the global society, national post type, is able to create structures of decision and action on global-local relationship, to solve global problems and balancing supply-justification. Thus, globalization means removing borders, increased cross-border trade and investment regulation, global products and global customers, global competition and global standards". (Jones, p.1) If globalization understood as interconnectivity can say that is morally neutral, the situation is different in terms of global capitalism. Supporters estimate that globalization help developing countries and emerging through access to markets, access to capital, information and technology. From the above, „globalization is perceived as inadequate two ways: a new concept that enhances continuity modalities of control of variables general problems and that an acceptable solution jams understanding of limiting access through power in the international system" (Cojocaru, 2009, p.4).

Globalization is a new formulation of world organization in order to solve an otherwise non-confrontational, resource allocation, as well as development issues that have not been solved in principle adversity. As a result, globalization, say some, „may be best seen as a process or set of processes than a single state. This does not reflect a simple single linear logic development and anticipates no society or world community" (Held *et al*. 2004, p. 46). Globalization is associated mainly with a global structure, dynamics, evolution, facilitation and constraint.

Globalization has affected the character of population mobility and international migration: the processes of globalization reshape economies, political systems and cultural parameters, resulting in „massive, hard-to-categorise, contemporary migration, often with oscillatory flows between unexpected locations of turbulent waves, with hierarchy of eddies and vortices". (Held *et al*. 2004, p. 50). Further, communications systems and infrastructure development enables people to commute between home countries and destination countries, or within countries, without pressure for settlement. In addition to this, there is a diversification in mobility flows, with individuals crossing borders for work, leisure, safety and security.

1.1. The siege on the EU economy

The European Union plays an increasingly important role on the international stage, especially in relations Econimic, where negotiate and conclude international agreements. Foreign trade is also subject to a common policy, common commercial policy replacing the action of Member States. The EU has a special responsibility in terms of economic assistance, coordinates the development and humanitarian aid sectors that leads and coordinates a complementary policy of member states. However EU intervention is less important in traditional areas of foreign policy making, such as defense and security are properly addressed at the national or intergovernmental. Without a doubt, the EU must play a political role more complex and integrate more closely with the global Cold War. Further EU must strengthen its global presence and to respond more quickly and effectively in the events that occur frequently, theme that the Common Foreign and Security Policy (CFSP) approved in Maastricht, addresses only a part.

The EU is the most important commercial alliance in the world economically due to the success of foreign trade and investment. EU direct investment in third countries is an important element in the global economy, since it holds more than a quarter of foreign direct investment worldwide. EU economic well-being depends on a free and multilateral economic order. The gradual opening its own markets to facilitate agreement with third countries are some of the main objectives of the EU. However, the EU has a very high tax on imports from other countries and in accordance with World Trade Organisation (WTO) is to defend their industry against unfair competition third countries. The EU uses trade defences instruments available but requires several steps, the minimum necessary to compensate for the damage, but did not take any action if imports are favourable for the global community. One of the important questions which must be given the answer is: Why a body like the European Union to have a supra-regional power? „Four major arguments are typically offered to justify the existence of a separate EU regional policy:" (Burtea, 2005, p.161-162).

1. First, the European Union considers that the effectiveness of regional policies of the Member States can be improved by ensuring focus available funds where they are most needed, namely in the most disadvantaged regions of Europe.

2. Secondly, the European Union fulfils a coordinating role. It may coordinate the regional policies of member states to prevent excessive external competition among European countries for mobile foreign investment for development projects. It is also necessary to coordinate their policies in the field of the Union.

3. Third common interest argument is used to ensure social unity within the Union, considering unacceptable the existence of major imbalances in terms of unemployment or income.

4. Finally, the most important justification for a separate regional policy at EU level is dynamic argument which states that regional imbalances can be a major barrier to deepening integration.

A key concern in the design of regional incentive policy is the designation of those problem areas to be allocated to aid in this form. In choosing these areas, member states do not have complete freedom. The regions designated by them shall not fall within the eligibility criteria call, but to achieve acceptance Directorate for Competition Policy of the European Commission. The experience of the European Union emphasized that the most important tool that can help achieve regional programs is a Regional Development Fund (RDF). He has created on the basis of co-meaning participation in its implementation, government funding, private and international.

„The European Union is presented as a puzzle of regions in very different stages of economic development, there are significant discrepancies even within Member States, coexisting prosperous regions with the poorest regions, and in this context, decentralization of regional policy at European level would lead to disputes between regions and countries, a dangerous competition for allocation of funds, net disadvantage poorer regions and countries” (Marchis, 2009, p. 62). Numerous studies on the EU assumes that this is a „sui generis system of governance” (Walles *et. al* 2005, p. 26), but a variant of the existing political systems. Another is the assumption that international actors have fixed preferences determined exogenously and act sistemetic to maximize these preferences within the constraints of the EU institutional system. Even the concept of the founders of the European Union shows that a level of development close to the community members that would automatically involve living standards area for members of these communities would be a key element for ensuring the stability of relations of good understanding and to avoid potential conflicts. The world economy is already constituted by the many functional and integrated regional markets in a global market. Regions offers small national economies necessary to increase market critical mass of production and sales to become competitive. On the other hand, „regionalization creates a unit capable of effective trade policy protectionism and uncertainties beyond restraint on free trade. It create an entity capable of reciprocity, and reciprocity is the only trade policy capable of operate in a world that is able to operate effectively in a world characterized by aggressive trade” (Rosca, 2005, p.103).

2. Development policy remains the European Union's stake

In his work on development and security, Frances Stewart defines development as a sign of progress in human welfare.(Stewart, 2004, p.4) The term is used when talking about economic growth, but nowadays it is recognized that this is not the only area it describes. So far the average income per capita were the most important part of development and progress. Even if it is an important indicator for ordinary people relate to areas such as health, education and security. The social development has rapidly grown over time, when compared with industrial and professional. Creating organizations can facilitate mutually beneficial exchanges, given the cost-benefit calculation in a particular international context.

The essential difference between social development model and other models is that former models represent general interests of social groups and emphasizes capital aspect of technological progress, while the latter takes into account the interests of industry. Comprehensive development project faces new challenges highlighted in the energy trade, climate change and food crisis. Their interdependence creates a powerful moment in world history in which analysts and practitioners seeking solutions episteme limited by narrow market. This contribution argues that official development pleading for natural market solutions, refurbishes solution of the problem – „a problem rooted in the geopolitics of a "gap metabolic" unsustainable global ecology and global discourse global power strengthening international relations through monetary and deepening debt rating Nordic eco.” (McMichael, 2009, p.247). The climate is a product of market development in many ways. Earth's atmosphere is heating up as a result of market infrastructure based global fossil fuel consumption. Since the market has become synonymous with development, is the answer to climate change solutions in the market.

Development is not a right. Rather it is a goal. „Climate development combines a footprint that defines relations between north and south with a market trajectory exploiting build relationships that called green. In the haze of prosperity promises of market developments, the impact on climate development took some time to be taken seriously.” (Roberts, 2007, p.25). The problem also defines development and human development, development of a new generation. The strength of the lasting development of the state is the system which is based on a competitive accumulation - according to the legitimacy of government, military and security - and the national currency stability through mechanisms such as trade, finance debt repayment and liberalizing its economic laws.

A number of combinations are "toxic" to the existence of a paradigm of development. „The first paradigm takes into account environmental externalities. Secondly, the draft global development is anchored in the nation-state system, which requires states and UN multilateral development agencies to define and further develop the accumulation of positive measures. Third, while all states are equal, some are more equal than others, especially when it comes to framing a problem. Also, inequality between classes and states, causing major delays in sustainable development, because at least those responsible for climate change to be most vulnerable to its effects. Fifth, the industrial technology relations (and military) - such as transportation of fossil fuels, widely exploited to resources - contribute in a variety of ways”. (Rostow, 1960, p.36). Criticism scientists on development are those that offer alternative positions and programs involving apparently unjustified growth consulting. Donors are increasingly interested in funding initiatives that provide a long-term perspective on social change within ongoing development. However, the issue of non-state actors should always be present if it is to be a real opportunity for social development contexts.

European Union and International Development „is a valuable addition to the existing literature because it develops an analytical model to explain the Commission's role vis-a-vis the Member States of the European Union's decision-making process” (Abingdon, 2007, p.37). International politics is the realm of competition between rival political groups, most notably the state. The state is not the only international actor, but by far the most important compared with other powerful states that establish the context and rules for other actors including the EU. „The EU is not a sovereign actor, but acting as a vehicle for collective interests of Member States” (Waltz, 1979, p.94).

Over the last decade, the EU has served as the international repository for concerns of Member States. Member States shall see the EU as a force for good in the world, committed to promoting the common European political values such as democracy and human rights. Aligning the objectives of EU development objectives achieved consists efficiency of EU action. „Failure objectives can question the continued funding by the EU for raw RRF development, leading to the withdrawal of the application of the EU to be a major player in world international influences development” (Holland, 2008, p. 338). As strongly supported Woods' „development assistance that prioritizes human development goals is in danger, a rapid increase in aid was channelled to address the new security imperative" (Woods, 2005, p.227). To move forward, the EU has traded autonomy for development policy in the hope of more effective collaboration with other global players. While this can create tension with EU foreign policy, however aspirations to be a global actor autonomous in terms of beneficiary states such global consistency is welcome and long overdue.

Conclusions

European Union's success is due, largely, its operation unusual. Unusual because the countries that make up the EU ("Member States") remain independent sovereign nations, but sovereignty in order to gain a strength and world influence none of them could not attain on their own. Far from being a federation like the United States, the EU is much more than an organization for cooperation between governments, like the United Nations. In fact, the EU is unique. In practice pooling sovereignty means that the member states delegate some decision-making powers to shared institutions they have created, so that decisions on specific matters of joint interest can be made democratically at European level. The unique character of international development policy of the European Union, with bilateral and multilateral dimensions, received special attention from critics. Most of the existing studies have focused on the policies and programs of the European Commission without trying to provide comprehensive conceptual models to analyse interactions between the European Commission and Member States development policy arena.

At the core of EU development policy are trade and humanitarian aid. Development policy came into being as an expression of the desire of the European Union to assume its role as an important player internationally, by helping the least developed countries to fight poverty and integrate into world trade. The EU's development cooperation foster: sustainable economic and social development of developing countries, their smooth and gradual integration of developing countries into the world economy, fighting poverty in developing countries. Union policy in this area contributes to the general objective of developing and consolidating democracy, the rule of law and respect for human rights and fundamental freedoms. EU countries coordinate their policies on development cooperation and contribute to the implementation of the Community aid.

„ It can be said that the objectives of development policy in Europe, consistent and targeted, can be discussed in Europe at different territorial levels” (Iuhas, 2004, p. 56). First there is an EU approach which sets out the principles and objectives of regional development policy supra-national, aimed at increasing economic and social cohesion. „The role of states in regional policy has been gradually reduced their intervention being replaced by "economic liberalization policies, regulation and privatization; direct support by state companies was replaced by indirect forms of assistance, particularly by reducing the level of taxation and support for training, consultancy and innovation” (Institul European, 2002, p.59). The desire for peace, determined action on regional integration, the process by which countries were giving barriers in the way of free trade and free movement of people across national borders. Development of the European Union is one of these actions has evolved the most and that brought the biggest changes to its citizens.

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TAXATION OF PER DIEM. ROMANIAN CURRENT LIABILITIES FOR EMPLOYERS AND EMPLOYEES

Mihaela TOFAN[*]
Ana Maria BERCU[**]

Abstract: *The accession to EU opened new opportunities in the area of transnational services, by using Romanian employees abroad. The general principle of free movement of labor allowed the employers to send their workers in another member states, under the domestic working contract. The cost for the human capital in the home country in comparison with this cost in the destination country determined fiscal implication, which were not addressed immediately by legislation. Therefore, disputes on doctrinarian level and also in practice evolved until a precise change in the legal framework became mandatory. The paper analyses these changing of the regulation, showing the limits of the regulation in force.*

Keywords: taxation, workers, mobility, free movement
JEL classification: K22; K34; J62

Introduction

The accession to the EU determined transformation also in the taxation legal framework. According to the fundamental principle of the free movement of workers, both employers and employees from Romania found opportunities for the development of their activities in other member states. The free movement of workers generates debates on the way rule of taxation apply in the transnational working contracts. There was not a general opinion on the fact that the taxation of workers' benefits should be according to the state of origin's regulation, or according to the host state regulation. The academics, the institution of the public administration, the legislative power representatives, both at domestic and at EU level, showed interest for this topic.

1. Literature review

European legal mechanism on transnational posting of workers do not provide a clear answer to the question whether there can be a single minimum wage, or rather a set of rules establishing minimum rates of pay in the case of a posted worker individually. The concept of remuneration rate appears to be crucial for the practical application and providing protective effect, starting from the

[*] Associate Professor, Center for European Studies, Alexandru Ioan Cuza University of Iasi, e-mail mtofan@uaic.ro
[**] Associate Professor, Center for European Studies, Alexandru Ioan Cuza University of Iasi, e-mail bercu@uaic.ro

rating that determines wages based on job classification and the qualifications or experience required. However, there is currently no clarity on the content of the concept. Moreover, there is much confusion about the standards to be used for comparing wages actually paid by the service provider to those set by the host (van Hoek *et al.*, 2011, p. 10).

Studies on the economic and social effects associated with the phenomenon of posting of workers in the EU noted effects on wages and working hours for local workers, in direct competition with posted workers. In Germany, a large number of construction workers have become unemployed in the same period when the number of foreign workers posted increased (Fellmer *et al.*, 2009, p. 130). Using the posting of workers varies from a normal mechanism and decent established long-term partnership, to totally illegal practices associated with the term mailbox used for recruitment (Cremers, 2011, p. 153). The mechanisms to regulate minimum wages was examined, based on statutory provisions or collective agreements designed to protect migrant workers and those posted against wage dumping (Alsos *et al.*, 2008, p. 441). Although declarative, EU regulatory approach seems to pay attention to aspects of the working conditions of employees and social priority over economic criteria is quite clear. The "dumped socialism" is also analyzed (Barnard, 2008).

A preliminary delineation required term worker positioning is related to diversified spectrum of labor relations, regulated by law in Romania. Simply listing the forms of typical and atypical working contract, we note the extent complexity of social relations in this field (Ghimpu *et al.*, 1995, p. 7-13; Ticlea, 2013, pp. 7-11). From a legal perspective, the incompatibility of the Labour Code concerning the assignment of the contract in a different legal system is noted (Stefanescu *et al.*, 2012, p. 225). Also, the suspension of the individual employment contract with the employer in Romania that posted workers abroad, exclude portability of social security benefits from the country of origin in the host country, because it does not maintain the employment relationship (Irimia, 2013, p. 41). Content analysis of the national institutional framework terminology in Romania revealed totally different meanings for the term of posting. For this reason, Romanian employer on its European path starts from an incorrect nationally posting concept. The level of conceptual relativity and unpredictability multiply at border crossings. If we add to these language barriers, difference in regulation and terms and peculiarities of legal regulations at national level in the EU and EEA, we have a picture of this unity in diversity heterogeneity (Tacu, 2013, p. 142).

2. Legal framework for per diem taxation in Romania

In order to obtain maximum benefit from their employees' mobility within the EU member states, the employers speculated on taxation, especially on per diem sum.

Under applicable tax regulations at the moment, the way the state per diem allowances are taxed depends on their value (Bostan, 2015, p. 230). Thus, the allowance during the delegation and posting in another locality in the country and abroad, in the interest of the service, if the its value exceeds 2.5 times the legal level established for employees of public institutions:

2. is subject to income tax,
3. is included in the monthly calculation base of compulsory social contributions, regardless of the entity paying (tax payer taxable income microenterprises, individual, individual enterprise, NGO).

At the same time, the amounts granted in the limit of 2.5 times during the delegation and posting allowance granted to employees of public institution are:

- not included in salary incomes
- not taxable;
- not included in the base monthly mandatory social contributors.

The amount of compensation established for public institutions is found in the following Govern decisions: GD 1860/2006 - for travel / delegating expenses within the country; GD 518/1995 - for travel / delegating expenses abroad. The Romanian Parliament adopted the Law no. 118/2010, which decreased by 25% the value set, and the Law no. 285/2010 on staff salaries in 2011 paid of public funds by public institutions, which increased the allowance by 15%. Continuing this line, the govern adopted the urgency ordinance no. 19/2012, which came into force starting with 01.12. In 2012, the daily allowance granted to Romanian personnel sent abroad increase by 7.4% compared to the amount of the November 2012.

3. Per diem allowances regime - deductible or not

From 1 June 2013 the rule that has been valid throughout 2014 is applicable, stating the general deductibility of per diem costs. Consequently, the employers can establish any amount of money as daily allowances, considered fully deductible in calculating taxable profit. Per diem costs are free, the employer may deduce how much as he wants, under the condition that he/she is able to demonstrate that expenditures were made exclusively for business purposes.

Govern Decision no. 20/16.01.2013 and Ordinance no. 8/01.23.2013 amend Law no. 571/2003 and introduce news previsions regarding the tax treatment of per diem, so it is assimilated to wage income. Therefore, it becomes subject to taxation (by applying the unique level of 16%), whereas employees receive it during the delegation and posting in another locality of the country or abroad, in the interest of the service and for other charges of the same nature. The taxation is calculated for the sum that exceeds 2.5 times the legal level established by Government decision for staff in public institutions (cf. art. 55, par. (2) letter i) of the Tax Code). Similarly, social contributions are due to daily subsistence exceeding this ceiling. This scheme is applicable also for non-profit legal person or other entity with non-taxable profit (including the micro-enterprises).

Table 1 - The taxation of per diem in 2013

legal treatment of per diem	before the 1st of February 2013	from the 1st of February 2013 to the 1st of June 2013	starting the 1st of June 2013
expenses	limited deductibility	limited deductibility	unlimited deductibility
salary	taxation due by the employee, for the sum that exceeds the limit for public institution	taxation due by the employee, for the sum that exceeds the limit for public institution	taxation due by the employee, for the sum that exceeds the limit for public institution
contributions to public funds	contributions due by the employer and by the employees, for the sum that exceeds the limit for public institution	contributions due by the employer and by the employees, for the sum that exceeds the limit for public institution	contributions due by the employer and by the employees, for the sum that exceeds the limit for public institution

Source: Personal legislative data processing

So subsistence expense is deductible up to 2.5 times the legal level established for public institutions, under art. 21 (3) b, Tax Code. In accordance with the previously mentioned legal previsions, the mobility daily allowance in Romania is 13 lei (art. 9 of GD 1860/2006), so it results that the maximum level of deductibility is 32.5 lei (RON 13 x 2.5), which is less than 10 euro.

Starting the 1st of December 2012, the foreign per diem due to Romanian personnel sent abroad for undertaking temporary missions returned to the maximum deductibility, previously established by the Law 118/2010 on certain measures necessary to restore budgetary balance.

The daily allowance is granted in foreign currency at the level provided for each country in which the worker moves. Thus, foreign per diem valid from 01/12/2012 for mobility in EU countries starts at 32,60 euro for each day and the maximum deductible per diem is 87.5 euro. Other conditions determining the daily allowance in a foreign currency are included in art. 7 and 8 of GD 518/1995.

4. Exemplificative case study

The most important issue for the taxpayers is whereas the per diem are deductible when calculated income taxes. The rights and obligations during the delegation and posting of staff are regulated by GD 1860/2006 on the rights and obligations of public authorities and institutions during the delegation and posting in another locality, and if movement abroad, in the interest of the employer, by GO 518/1995 on certain rights and obligations of Romanian personnel sent abroad for undertaking temporary missions.

Pursuant to these laws, delegation and/or posting employees receive a daily allowance of delegation or posting, regardless of the function they perform and the public authority, institution or private company in which they work. The number of calendar days in which people are in the delegation or detachment is deemed the date and time of departure and until the return of the means of transport to the place of his permanent place of work, considering each one 24 hours day of delegation or detachment.

On leaving, the employer issues a travel order, according to the legal template, based on which the employee will receive money in advance from cashiers and under which he/she will justify the spending at returning to the permanent working place. If the amount of the expenditure is higher than the sum received for posting, the employer refunds the difference. In the opposite eventuality, the employee should return the extra-advance to the cashier. Those expenses are considered expenditures in order to obtain taxable income, deductible, in accordance with art. 21 par. (2) e) of the Tax Code and the pt. 27 of the Methodological Norms approved by Government Decision 44/2004, with subsequent amendments. The only sum received during delegation that needs no justification as spend money received is per diem.

The Fiscal Code was amended for the first time in 2013 by Government Ordinance no. 8/2013, published in MO Part I no. 54 / 01.23.2013 and rectified on 02/06/2013. The provisions of this act came in force from 1 February 2013. We recall that in the past seven years, according to the tax rules, subsistence money was considered assimilated to wages and was subject to income tax of 16%, payable by employers only for amounts awarded with this title which exceeded 2.5 times the legal limit set for the salary received during the delegation and if posting was in another town in the country or abroad. From the 1st of February 2013, the legislative probably desired to collect as much money as possible to the budget, so it kept the tax rules relating to the tax mentioned, but has extended its applicability to all categories of employees who receive compensation during the delegation and posting in another town in the country or abroad.

5. Romanian tax amnesty in 2015

After long debates, pros and cons, Law no. 209 was finally published in the Official Gazette on 20 July 2015. The law itself is named Law on cancellation of debts, but public perception is law on tax amnesty. Many will rush to appreciate that hordes of criminals benefit from its coming onto force, discouraging the proper action of taxpayers. So, it is important to establish if such effects are valid or the legislative strategy is different.

Returning to the subject itself of the tax amnesty granted by the Romanian Parliament, some might easily note that the "generosity" is present in the following prevision of the law:

- the taxpayer should not pay the main tax liabilities, as well as related accessories, established by the tax decision issued and communicated to the taxpayer as a result of the reconsideration / reappointment of taxpayer activity as dependent;
- the taxpayer should not pay the main tax liabilities, as well as related accessories, established by the tax decision issued and communicated to the taxpayer as a result of considering salary the amounts received during the delegation and posting on territory of another country;
- the taxpayer should not pay the differences in value added tax on the income from intellectual property rights, and related accessories, established by tax decision issued and communicated to the taxpayer as a result of overruns and failure to register as a tax payer VAT. If the taxpayer has exercised his right to deduct, under the law, first tax return filed after the decision of value added tax, the tax authority does not cancel differences in value added tax, but related accessories to differences in value added tax.

For all three categories mentioned above, the cumulative tax obligations are included, due to fiscal periods before 1 July 2015 and not paid until the entry into force of this regulation, on July 23, 2015 respectively.

The tax amnesty is applicable also for health insurance contribution and related accessories, established by tax decision issued and communicated to the taxpayer, payable on monthly basis. This applies for the calculation of the contribution of health insurance that is less than the minimum salary in the country, for the fiscal periods between 1 January 2012 and before the coming into force of the law and not paid until the entry into force of the law. These provisions are applicable to persons who have no income and monthly basis for calculating the contribution of health insurance is the minimum wage. Also, we note that the cancellation of all tax obligations listed above are automatically performed by the competent tax authority by issuing a decision to cancel the tax liability, which shall be communicated to the taxpayer. This is quite opposite to previously adopted amnesty regulation, which were applicable only by written request of the taxpayer.

The motivation of tax amnesty law adoption is the establishing by law of four reclassification criteria of an independent activity into a dependent one, status with deep fiscal implications. The art. 7 (2) in Tax Code presents these criteria, but we should also note that in the period prior to reclassification, the tax authorities proceeded mainly as dependent activities for subsistence and income from independent professions. The income taxes laid on salary are obviously higher than those paid as independent activity, yet the risks of business are different. An independent professional does not receive annual leave or sick leave allowance (whether paid contributions to health), although he/she pays taxes and is obliged to provide pensions. The legislative logic has entirely different nature: if income tax reclassification is already considered by the fiscal authority, so taxpayer have to pay more, on the basis of highly interpretable regulation. Clearly, taxpayers against whom the order is addressed will address to the court, demanding justice. The justice is always done in accordance to the law, so the taxpayers have to have a precise regulation saying their fiscal liabilities, above any arbitrary interpretation. And, in these circumstances, the real beneficiary of the amnesty law is precisely that tax authority that should no longer justify abusive and discretionary manner in which it acted in all these situations.

Final Remarks

As a conclusion, the Romanian regulation is force establishes that per diem money are subject to tax on salary income (rate of 16%), due to the general conception that the allowances granted to the employee should be treated as salaries. Allowance and any amount of the same nature will be included in the monthly calculation basis of individual social contributions.

On the other hand, if the allowances and any other amounts received by employees of the same nature as provided by law or contract of employment, during the delegation and posting in another town in the country or abroad in the interests of the service are " up to 2.5 times the legal level established by Government decision for staff in public institutions and those received for travel and accommodation expenses", the fiscal treatment is exactly opposite. Note, however, that to the limited deductibility of per diem expenses, as mentioned above, that subsistence beyond "the limit of 2.5 times the legal level established by Government decision for the staff of public institutions" is an expense deductible in determining taxable profit or net annual income obtained from independent activities, as appropriate. Also, we note that laws governing the amount of per diem that are now in force establish different amount in the country (another town) and abroad.

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HEALTHCARE QUALITY AND ITS EFFECTS ON GROWTH. A REGIONAL ANALYSIS

Ana Iolanda VODA*
Claudiu TIGANAS**

Abstract: *The purpose of our paper is to analyse the relation between the inequalities of the healthcare system and economic growth. With respect to methodology, we focus on the eight development regions of Romania which group counties with different development levels and complementary economies. By using descriptive and comparative analyses, we aim at highlighting the discrepancies of the Romanian system considering the following indicators: life expectancy at birth (years), standardised death rate, all causes of death per 100 000 inhabitants, infant mortality, physicians or doctors (per 100000 inhabitants), dentists (per 100000 inhabitants), number of nurses (per 100000 inhabitants), available beds in hospitals, number of hospitals available in the regions and family care units.*

Keywords: healthcare quality; income; regional analyses
JEL Classification: I10; I14; I15

Introduction

The relation between the health level and income is analysed in literature from a double perspective: the former draws on studies based on the statistical analysis of various time series with the role of estimating the impact of measures taken in the medical field on income or its growth. The long-term relation between income and health is examined by Arora (2001) who had in view a number of ten developed countries. The results obtained show that population health influenced economic growth which should be an integrated part of economic productivity. Arora concludes that "within the co-integrated relation between income and health, innovations in the medical field lead to economic growth and not viceversa". (Arora, 2001, p.730) Aurora's observations are similar to the ones reported by Fogel (1994, 1997) who conducted a study of Western economies along two centuries – from 1780 to 1979. By analysing the international data during the past 25 years, Bloom and Sachs (1998) obtained empirical evidence on the important role of health and demographic variables on determining the rates of economic growth. More recent studies examined the effects of life expectancy for the following 15-25 years and found strong direct effects, as well as indirect ones

* Scientific Researcher III, PhD, Department of Interdisciplinary Research – Humanities and Social Sciences, Alexandru Ioan Cuza University of Iasi, Romania, e-mail: yolandadr3i@yahoo.com
** Lecturer, PhD, Department of Economics and International Relations, Alexandru Ioan Cuza University of Iasi, Romania, e-mail: clau_tiganas@yahoo.com

that show in the investment rates in physical capital or the demographic profile of the population (Barro, 1997; Sachs and Warner, 1997; Bloom and Williamson, 1998). Bhargava, Jamison, Lau and Murray (2001) assessed the effects of the initial situation of health on a group of countries for five years and only found strong effects on low-income countries. A series of macroeconomic studies at international level also found evidence of a significant impact of health (measured in life expectancy) on economic growth (Mayer *et al.*, 2001; Caselli, Esquivel and Lefort, 1996; Gallup and Sachs, 2000).

The division of the world into rich and poor is not a recent one; on the contrary, various circumstances, be they historical, political or geographic have explained the structure of the world as a mosaic. The aim of our article is to highlight the inequalities of the Romanian healthcare system.

1.Literature review

The ones tackling the problem tried to prove by essays or quantitative studies that the health state influenced the individuals' level of productivity, determining the welfare level of a country. For instance, Bloom and Sachs (1998) and Gallup and Sachs (2001) obtained empirical evidence on the important role of health and demographic variables in determining economic growth rates. The authors mentioned claim that only malaria "reduces the annual growth rate of South-Asian economies by 2.6 percent, and the African one by 0.6 %"(Bloom, Sachs, 1998, p.276). Such a "magnitude implies that if malaria had been eradicated in 1950, per capita income in Sub-Saharan Africa would have been twice as much today. Should we add the effect of other diseases, the effects would be greater" (Mosora, 2009). The World Health Organisation supports the same position: "nowadays poor health has devastating effects on economic development in Sub-Saharan Africa, South-East Asia and other regions with many diseases and high poverty" and "the access to basic medical services (…) for the poorest could save millions of lives every year, diminish poverty, stimulate economic growth and promote global security"(Mosora, 2009, apud OMC, 2009). Similarly, the study conducted by Bhargava, Jamison, Lau and Murray (2001) investigated the health effects (such as the adult survival rate) on economic growth for up to five-year periods, between 1965 and 1990. The results obtained point out that "although the health of individuals in a country can only be roughly approximated in national averages, the models showed significant effects of adult survival rate (ASR) on economic growth for low income countries. Thus, for example, for the poorest countries, a 1% change in ASR was associated with an approximate 0.05% increase in growth rate. While the magnitude of this coefficient was small, a similar increase of 1% in investment/GDP ratio was associated with a 0.014% increase in growth rate" (Bhargava *et al.*, 2001, p.15). Similarly, the paper drafted by Mayer *et al.* (2001) analyses the South American countries and the Caribbean; the author found a significant impact of life expectancy on long-term economic growth. Using the data from the two countries with different institutional structures, i.e. USA and The Netherlands, Hurd and Kaptevn (2003) concluded that both the income and the income gap are strongly related by the inequalities in the health system.

Starting from the evidence above, in our paper we aim at analysing the relation between the inequalities in the healthcare system and economic growth. As far as methodology is concerned, we focused on the eight development regions in Romania which bring together countries with different development levels and complementary economies as follows: *The North-East Region (N-E)* which comprises *Bacau, Botosani, Iasi, Neamt, Suceava* and *Vaslui county*, the *South-East region (S-E)* consisting of Braila, Buzau, Constanta, Galati, Tulcea, Vrancea; the *South Region – South (S)*: Arges, Calarasi, Dambovita, Giurgiu, Ialomita, Prahova, Teleorman; the *South – West Region (S-W)* with Dolj, Gorj, Mehedinti, Olt, Valcea; the *West Region (W)* with Arad, Caras –Severin, Hunedoara, Timis; the *North – West Region (N – W)* - Bihor, Bistrita – Nasaud, Cluj, Maramures, Salaj, Satu – Mare; *the Center Region (Center)* – Alba, Brasov, Covasna, Harghita, Mures, Sibiu and *Bucharest-Ilfov Region (Bucharest)* - Bucharest, Ilfov.

Using the descriptive and comparative analysis, our aim is to highlight the discrepancies in the Romanian system (see figure 1), considering the following indicators: life expectancy at birth (years), standardized death rate, all causes of death per 100 000 inhabitants, 3 years average 2008-2010, Infant mortality, Physicians or doctors (per 100000 inhabitants), Dentists (per 100000 inhabitants), Number of nurses (per 100000 inhabitants), Available beds in hospitals, Number of hospitals available in the regions and Family care units.

2.Discrepancies in the Romanian Healthcare System. An Analysis at the Regional Level

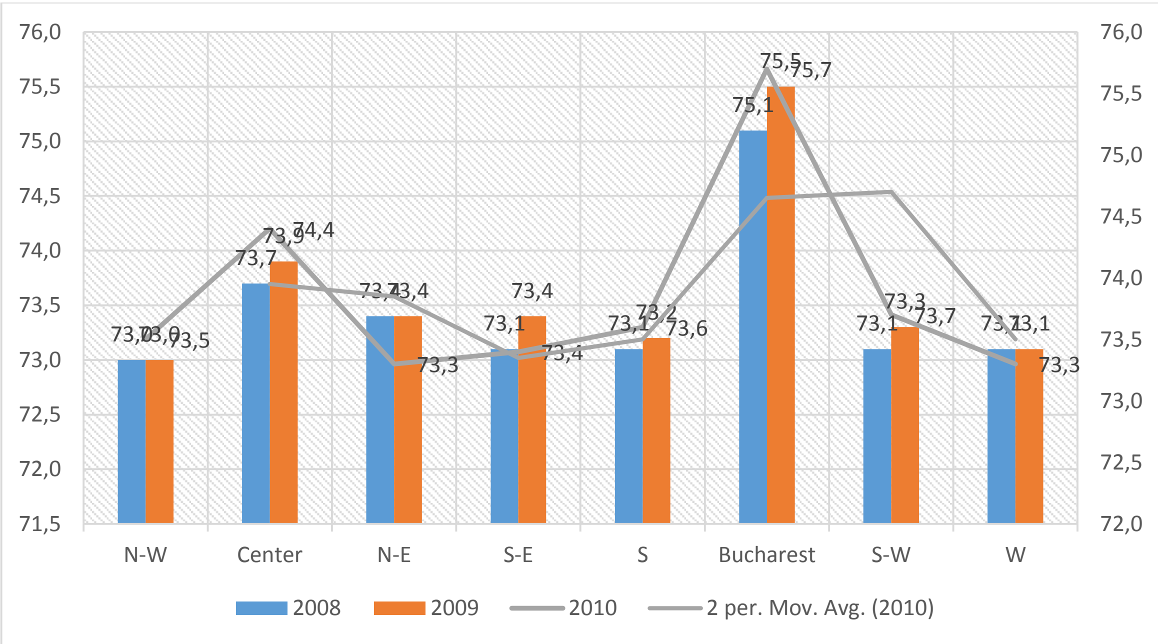
A number of studies conducted in developing countries showed an important relation between education and the state of health of the new generation measured in terms of life expectancy[1]. As proved by Howitt Peter, “an increased life expectancy has a direct effect on the training level of the population by the influence on the death rate via accidents at work that make up the effective depreciation skill rate” (Howitt, 2005, p.17). Its entire ideological foundation is based on the following equation s=$\lambda\acute{\varepsilon}(1-\acute{\varepsilon})/\phi+\eta$ where λ is Learning efficiency; η - Population growth rate; ϕ - Skill-adjusted death rate; $\acute{\varepsilon}$ - School attendance ($\acute{\varepsilon}$< 1/2). However, when “infant mortality is the

[1] Life expectancy at certain ages represents the mean number of years still to be lived by a person who has reached a certain exact age, if subjected throughout the rest of his or her life to the current mortality conditions (age-specific probabilities of dying).

dominating one, and death rate at the workplace rises, the effects described above cannot be reversed. This effect may explain why so many developing countries which seemed to grow as rapidly as the developed world in the first half of the 20th century have had disappointing results ever since" (Howitt, 2005, p.17).

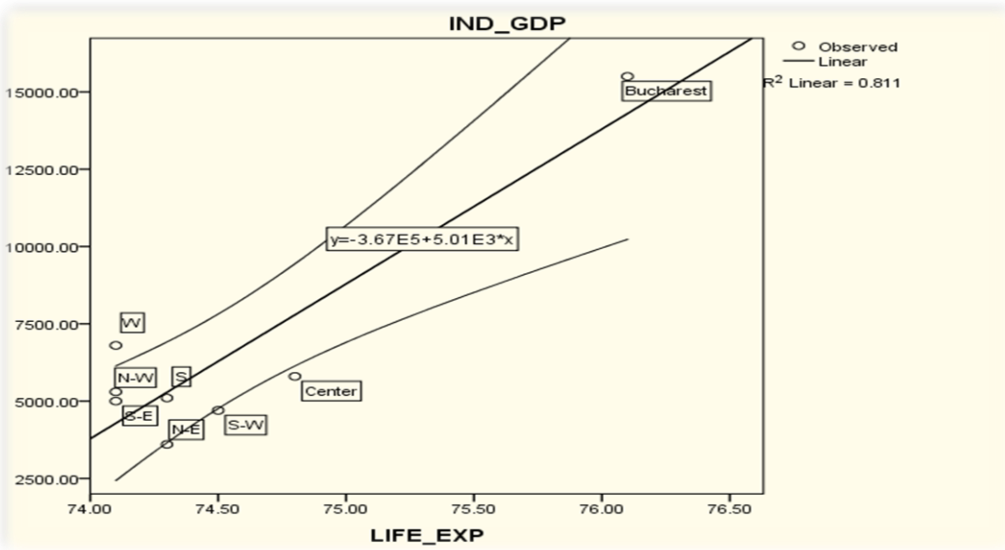
In Romania, the Bucharest – Ilfov region recorded the highest level with a life expectancy of 75.1 years, the lowest one pertaining to the North-West region.

Figura 1 - Life expectancy, 2008-2010



Source: Eurostat Database, NUTS 2, 2010

Figura 2 - Life expectancy, 2011

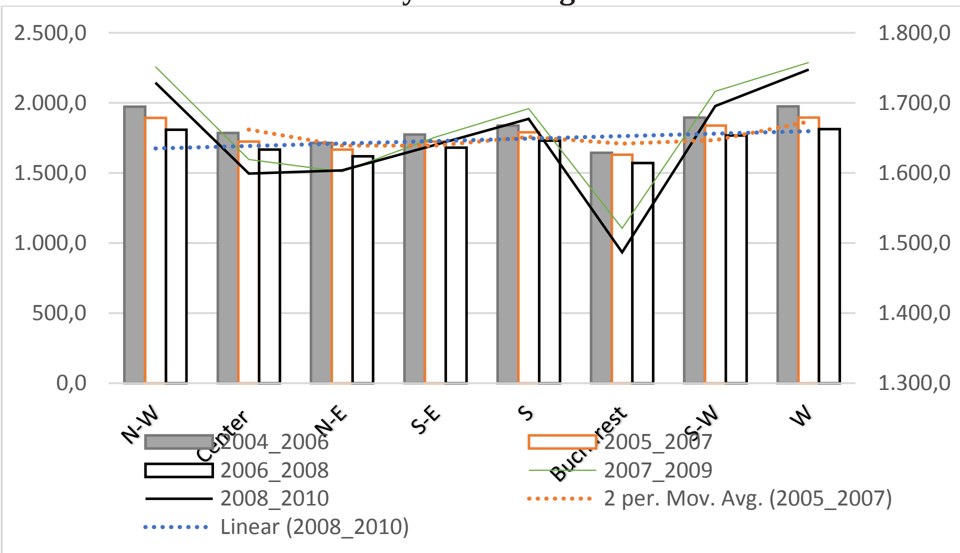


Source: Eurostat Database, NUTS 2, 2011

In Romania, the Bucharest - Ilfov region is the only one with an average life expectancy of 75.7 years in 2010, followed by the Center region with 74.4 years; the other six regions recorded average time spans below the national means that ranged between 73.3-73.7 years.

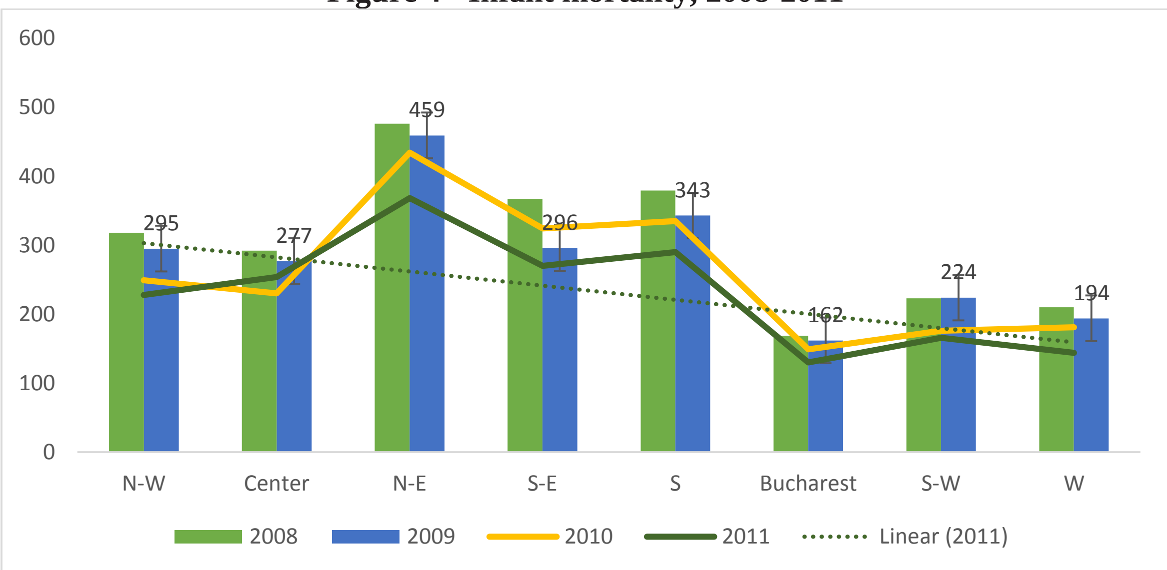
In 2011 (Fig. 2), there was an increase of the average life expectancy for all NUT2 regions in our country. The Bucharest – Ilfov region comes first with an average value of 76.1 years, followed by the Center region (74.8), South-West (74.5) and North-East one (74.3) one. The North-West, South-East and West regions hold the last three positions with a value of 74.1 years.

Figure 3 - Standardised death rate, all causes of death, per 100 000 inhabitants, 3 years average



Source: Eurostat Database, NUTS 2, 2011

Figure 4 - Infant mortality, 2008-2011



Source: Eurostat Database, NUTS 2, 2011

Figure 3 shows the values recorded by the indicator *Standardised mortality for all death causes* reported for the 100 000 inhabitants and calculated as 3-year average. The periods considered are: 2004-2006; 2005-2007; 2006-2008; 2007-2009; 2008-2010. At a regional level, the South, South-West and West regions record the highest values for this indicator, the results mainly being caused by the high levels in the Giurgiu, Teleorman, Ialomita, Mehedinti, Dolj county, the mountain area of the West region. The North-West region records a constant decrease of values, reaching values below the national means in 2007. The same holds true for the Bucharest – Ilfov region with its decreasing tendencies below the national rate. Standardised mortality for the first causes of death recorded a descending trend between 2004-2011. However, there was a rise in mortality because of chronic diseases of liver and cirrhosis, as well as the ones caused by excessive alcohol consumption. According to the National Health Strategy 2014-2020 – Health for Prosperity, "*the pattern of mortality for all the main non transmissible diseases – of the circulatory system, some cancers, cirrhosis – is generally more unfavourable in Romania than in other EU countries; the age standardised rates are two times higher than European means, and the differences more significant in the case of premature mortality (from 0 to 54 years)*"(Ministery of Health in Romania (2013, p.10).

Figure 4. shows data on infant mortality at regional level between 2008-2011. There are major discrepancies among the regions analysed so that the N-E region has the highest values, and the Bucharest-Ilfov one, the lowest. "Infant mortality is significantly higher in the urban area and at national level (7.7/1000) than in the rural one (12.3/1000 living newborn). In a series of counties (Cluj, Buzau, Dolj, Constanta, Salaj and Vrancea), infant mortality in the rural area is two or three times higher than in the urban area. Over 80% of the deaths at home in children below 5 and in the first 24 hours of hospitalisation occur in children from the rural area. Significant geographical discrepancies are also encountered in the calorie malnutrition in children from 0 to 2 with variations of the indexes reported between 0% in the Timis county and 8.2% in Mehedinti county." (Ibidem, p.22).

Regarding physicians, dentists and nurses reported per 100000 inhabitants, there are significant inequalities between regions (see Table 1).

Tabel 1 - Healthcare Workforce, 2011

HEALTHCARE WORKFORCE			
Regions	Physicians or doctors (per 100000 inhabitants)	Dentists (per 100000 inhabitants)	Nurses (per 100000 inhabitants)
N-W	279.35	80.63	590.2698
Center	235.24	60.64	549.0157
N-E	178.44	52.40	506.8897
S-E	166.83	50.63	504.1366
S	134.82	35.48	447.4077
Bucharest	500.32	109.53	745.8491
S-W	201.44	42.04	549.2430
W	322.70	87.92	552.3962
Romania	239.2023	62.3058	612.4434

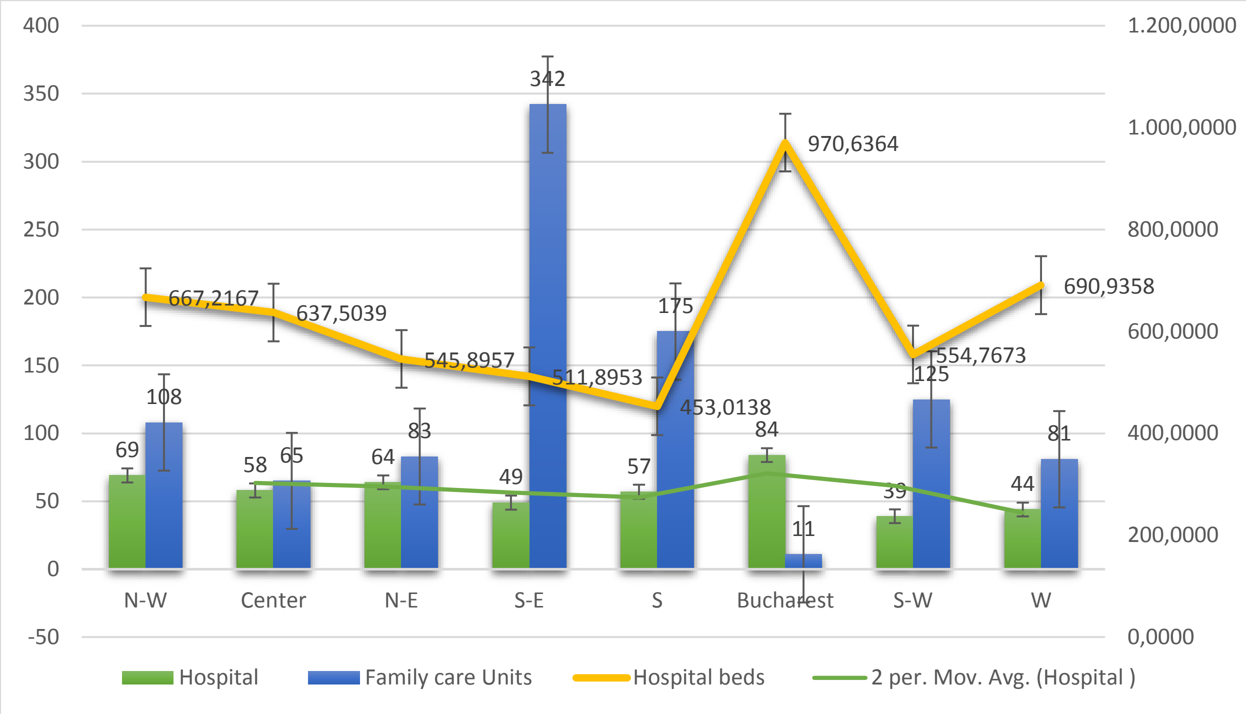
Source: Eurostat, 2011

The economic development of Romania is directly influenced by the quality of healthcare services provided to the population. Table 1 shows data on the number of physicians, dentists and nurses per 100000 inhabitants. Thus, at national level, the number of physicians recorded an annual growth of approximately 6% at the national level in 2011 as compared to the previous year. This increase particularly owed to the North-West, Center and West regions in which the number of physicians constantly grew. Out of the eight regions analysed, the Bucharest area holds the first place: in 2011 it recorded a number of 500 327 physicians per 100 000 inhabitants, followed by the West region (with a number of 322 701 physicians per 100 000 inhabitants) and the North-West region (279.351 physicians per 100000 inhabitants).

The South region holds the last place with 134.823 physicians reported for 100000 inhabitants. Therefore, it can be noticed that the number of available physicians in 3.71 times higher in Bucharest than in the South part of our country. A similar situation is also recorded in the case of dentists, where the Bucharest region holds the first place with the highest amount of the total number of physicians and dentists reported for 100 000 inhabitants (109.53 dentists for 100.000 inhabitants).

The Bucharest region also holds the first place with respect to the number of nurses reported for 100 000 inhabitants. N-W and W regions hold the following places, where a number of 590.2698 and 552.3962 nurses, respectively per 100 000 inhabitants.

Figura 5 - Healthcare activities: Number of hospitals available in the regions, Family care units and Available beds in hospitals



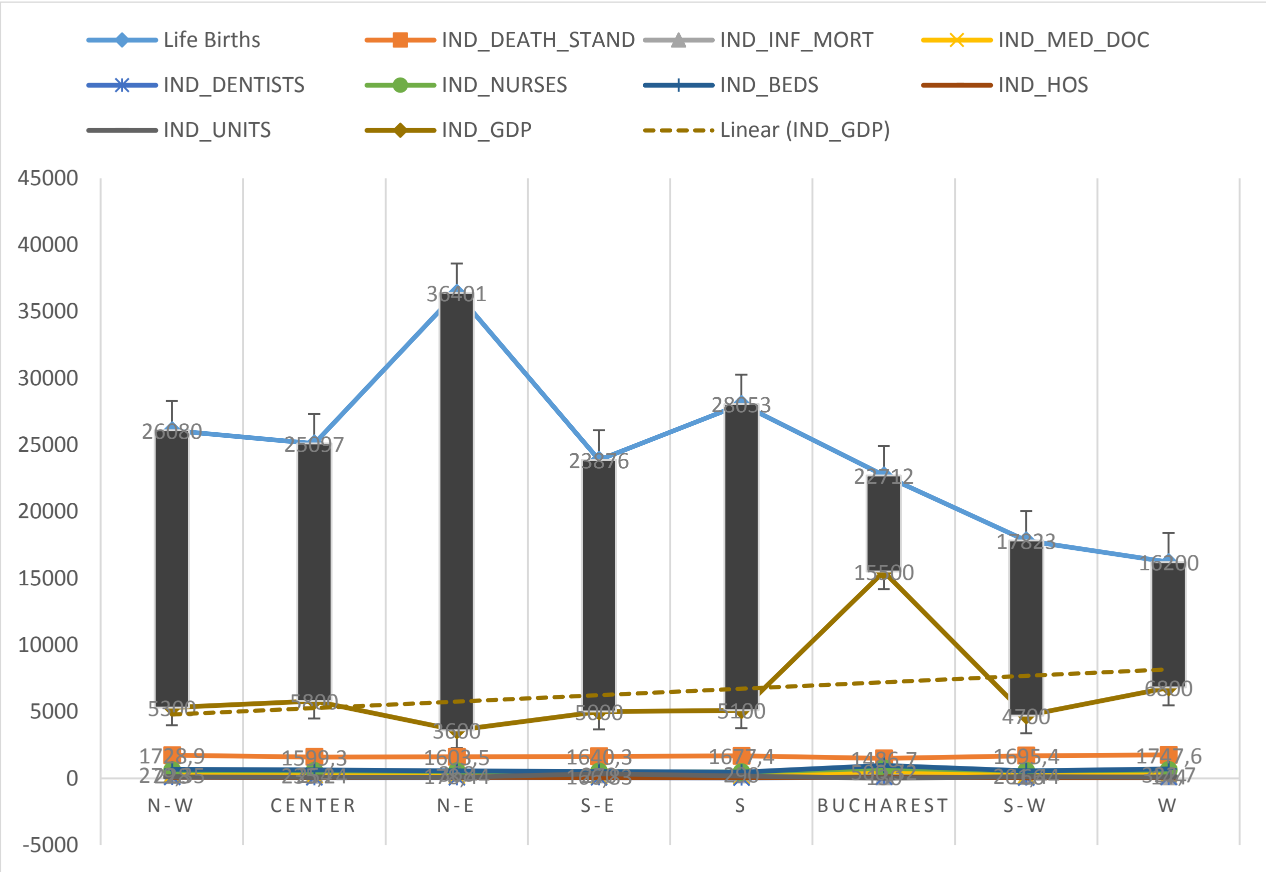
Source: Eurostat Database, NUTS 2, 2011

According to the statistical data of 2011, Romania has 464 hospitals and 990 family care units. At regional level, Bucharest (18.1%) and the North-West area (14.9%) of the country have the higher number of hospitals in the country. At county level, the Center region has the highest number of healthcare units in Brasov and Mures, and the lowest in Covasna and Harghita. After costs were cut in the healthcare system, a measure imposed by the Romanian Government in 2011, a number of 67 hospitals went bankrupt in our country, out of which eight from the Center region.

Consequently, at the end of 2011, this region remained with 58 hospitals and 108 family care units. These healthcare units were not the only ones to suffer consequences, but also the polyclinics that decreased by 27 units, health centers by 2, and general medical practices by 35, etc. The S-W region holds the last place regarding the number of hospitals of the total ones at national level (8.4%).

The situation is similar to the one of *Family care units* where Bucharest region holds the first place. The distribution of available beds varies between 970.64 available beds per 100 000 inhabitants (Bucharest) and 453.01 units available for South region.

Figure 6 - The relation between the health level and income level



Source: Eurostat Database, NUTS 2, 2011

The economic development of Romania is directly influenced by the quality of healthcare services the population enjoys. According to the graph above, the Bucharest region where the income level is the highest, indicators such as *standardised death rate, all causes of death per 100 000 inhabitants, 3 years average 2008-2010* and *infant mortality* hit rock bottom. In the same area, the number of physicians, nurses and dentists is the highest in the country. Significant differences were also noted in the number of available beds and available hospitals. Thus, we consider that without a workforce with minimum education levels and a good health, a country is incapable to maintain a continuous economic growth. Moreover, since health is an important determinant of productivity and underdeveloped countries and developing ones mainly depend on physical labour, special attention should be given to a healthier workforce to maximise productivity.

Conclusions

If we ask why the level of performance of the poor countries is low, we have a determining factor – the state of health which influences the individuals' level of productivity, thus accounting for the welfare level of a country. We thus consider that without a workforce with minimum education levels and good health, a country is not able to maintain a continuous economic growth. Furthermore, since health is an important determiner of productivity and underdeveloped countries or developing ones roughly depend on physical work, special attention attention should be given to a healthier workforce to maximize productivity.

The analysis we conducted allowed us to note that the regions in which the state of health (measured by means of the following indicators: Life expectancy at birth (years), Standardised death rate all causes of death per 100 000 inhabitants, Infant mortality, Physicians or doctors (per 100000 inhabitants), Dentists (per 100000 inhabitants), Number of nurses (per 100000 inhabitants), Available beds in hospitals, Number of hospitals available in the regions and Family care units) was better, the associated income level has a higher level. Good health is an essential element of human welfare, representing a value in itself and a key element of human capital which, in its turn, directly influences the growth process of economic competitiveness.

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