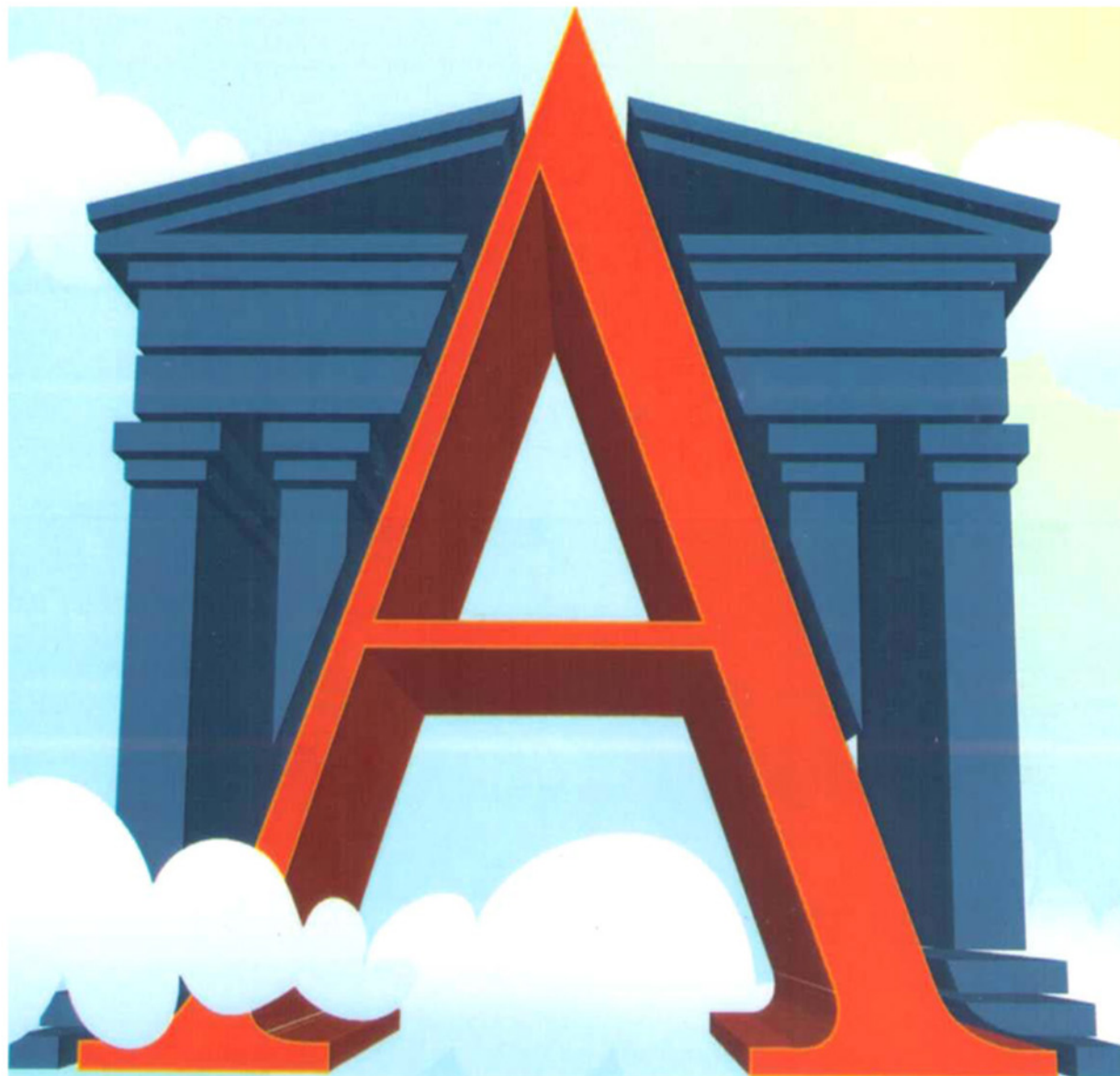


# INTERNAL AUDITING & RISK MANAGEMENT

ANUL VIII, Nr.2(30), JUNE 2013



U N I V E R S I T A T E A  
ATHENAEUM

& Centrul de Excelență în Managementul Financiar și Audit Intern

# **INTERNAL AUDITING & RISK MANAGEMENT**

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**Revistă trimestrială editată de Universitatea „Athenaeum” &  
Centrul de Excelență în Managementul Financiar și Audit Intern**

**ANUL VIII, NR. 2(30), JUNE 2013**

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## **CORPORATE GOVERNANCE IN THE CURRENT CRISIS**

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### ***Abstract:***

*Corporate governance is a set of functional processes and structures established by the leadership of the organization in order to inform, direct and monitor lead activities in order to achieve predetermined objectives. Efficient and effective corporate governance involves goals, long-term strategic plans, policies and implementation of the strategy, but also a proper leadership which sets the appropriate issue appropriate decisions to achieve the objectives and ensure the functioning of the established structures to maintain the integrity, reputation and the liability of the organization, both from inside and outside.*

*The concept of corporate governance has been developed based on the theory of the agent, which put in evidence in the first place, the relationship between the investor/shareholder and manager/administrator and then extends to the full range of relationships that must exist between those involved directly or indirectly in the activities of an organization.*

*In our country corporate governance is the system by which organizations are led and controlled at the same time, and the decisions and actions taken by senior management in order to achieve the objectives set, using the appropriate means and resources. In addition, corporate governance involves a set of relationships between entity management and other personnel, which must be lead to improving the effectiveness of the activities conducted and the growth of the organization as a whole.*

**Keywords:** internal audit, external audit, internal audit committee, the management entity, corporate governance.

**JEL Classification:** M00; M41; M42

**The characteristics of corporate governance**

European

The concept of corporate governance published initially that response to a series of economic and financial failures in the private sector, has expanded into most areas of activity. In the last period of time has been adopted, particularly by public sector organizations.

Corporate governance involves a set of rules and control systems, verification, assessment, et al., applied by the entity in order to achieve an efficient management and effective, in order to ensure the achievement of the objectives set. In this sense, the concept of corporate governance should be associated with the risk management and internal control system.

In order to ensure a proper leadership, governance public entity must devise and implement a strategy for the development of an entity and specific policies for each area of activity, as well as to organize a system of internal control/management suitable for ensuring that the objectives laid down, which is directly responsible shall be carried out at least in the planned conditions.

In practice there is not yet a definition of the concept of corporate governance date and unanimously recognized by specialists in the field. However, the most widely used concepts of practitioners are those formulated by the IIA and IFAC, respectively:

- Governance is a combination of processes and structures implemented by the board of directors for to inform, to driving, direct and monitor leads the activities of the organization, in order to achieve predetermined objectives;
- Corporate governance is a set of practices of the board of directors and executive management, carried out with the aim of providing strategic directions of action, achieving the objectives proposed, risk management and responsible use of financial resources

From the analysis of these concepts are found, they synthesize a organize relationships both with the internal environment, represented by shareholders and employees, as well as with the external environment represented by suppliers, lenders, community, but also the interaction between Board of Directors and company management.

Corporate governance is organized on the basis of principles, which are regarded as pillars of good governance, respectively:

- a. **Integrity**, corporate governance is an essential concept, which involves applying an ethical and professional behavior, with regard to respect for the interests of others and social responsibility.

b. **Transparency** is required, since the exposure of any irregularities or poor performance of the public and the critics lead to improvement of specialists' behaviors and performance. Also, without opening there was evolution and performance.

c. **Responsibility** is the most simple and important principle of governance, but, at the same time, it is the least understood and respected within the organizations. Because, in most cases, is the fact that the times is not sufficiently defined at the level of the Organization, it is not clear for both driving and for the rest of the staff.

Mainly at the organization accountability can be achieved by:

- very good knowledge of the responsibilities relating to the activities, results and behaviours;
- hierarchical responsibility toward the person who granted responsibility;
- the person who grants the responsibility must be sufficient and specific information in order to assess the results of the employee to whom they were determined to achieve certain tasks;
- responsibility committed must be subjected to an independent examination, such as internal audit;
- the establishment of effective mechanisms of reward and sanction, to be properly applied and whenever it is necessary

In these respects it is noticed that, corporate governance principles have been laid down in general, leaving up to the establishment of instruments and mechanisms of the organizations, including the importance of them.

At the same time, the management of risks for the implementation of the system of internal control, in compliance with corporate governance policies and codes has come to be synonymous with integrity, sincerity, transparency and responsibility.

The leadership of the organization is responsible for formulating strategy and long-term planning for the development of the organization and meet in front of shareholders with regard to achieving the objectives that have been set. To avoid getting poor results, management entity has all the appropriate measures in order to achieve the strategy and developed policies and at the same time to organize a proper internal control system with which to master the risks and evaluate the organization.

### **Ensuring the necessary framework for good governance**

The concept of governance in our country has been defined by art. 2 (a). h1) of Law No. 672/2002 on public internal audit, republished, with subsequent modifications by “the ensemble of processes and structures implemented by the management in order to inform, directing, management and monitoring of the activities of public entities to achieve its objectives”.

Also in the vision of the Institute of Internal Auditors from the S.U.A, there are the following basic pillars which provide a good framework for corporate governance at the entity level:

- Executive management or managing entity;
- The internal audit committee,
- Internal audit,
- External audit.

Each of these pillars provides, independently of each other, an assurance with respect to corporate governance.

Analysis of these pillars in the context of entities which are organized and function in the public sector in our country has set out the following:

#### **A. The entity's management**

Entity management is responsible for the design and implementation of management and internal control/to provide an assurance to all those interested in the achievement of the entity, in terms of economy, efficiency and regularity.

People who are part of the entity are called entities and representatives have the responsibility to select and recruit the leaders of functional structures of the entity, as well as the execution staff, to analyze the policy promoted in the field and the needs of citizens and to design appropriate policies and strategies in order to achieve the proposed objectives.

In order to ensure achievement of the entity's management developed and approved a budget of income and expenditure, an activity plan and define qualitative and quantitative indicators for measuring performance. Also register economic activities in the accounting system and synthesizes them, usually on an annual basis, in situations of financial reporting on the basis of national regulatory standards.

Entity representatives analyze the performance of the entity and financial results obtained by the entity's management and follow if public funds or provided leadership and used judiciously, in terms of economy, efficiency and effectiveness.

The management entity must give proof of competence in performing their duties the incumbent and has the right to order any measures which it considers appropriate to achieve the objectives and activities, but is responsible for all actions taken as a result of the decisions taken.

Corporate governance guarantees with regard to the attainment of the conditions in which the entity has the ability to get the best management decisions, and functional structures and staff leaders of execution has the knowledge, skills and values necessary for carrying out the activities for which they are responsible.

### **B. Audit Committees**

The audit committee is a tool of corporate governance, which is intended to ensure the Organization and ensure the proper functioning of internal control, internal audit and its relationship with the management entity.

Acknowledgement the audit Committee activity is determined by the order of formation, of the requirements of autonomy, sizing and transparency of the activities, as well as the ways in which maintains the relationship with the internal auditors and entity management.

Committee activity is done on the audit Committee Charter, which provides information about the committee's practice, the frequency and duration of meetings, the analysis of materials and expressions of opinion or issuing of approvals, and reporting to the entity's management.

In international practice, The Audit Committee, in addition to the duties imposed on the provision of insurance relating to the efficiency of the internal audit function, and some additional responsibilities to meet, including the risk management and internal control, as well as establishing investigation with special character, at the request of entity management.

To carry out the responsibilities set out the audit committee must have a relationship with the entity and sincerity with the internal auditors and to fulfill functions effectively.

Internal audit and external audit functions of the entity represent by means of which the audit committee carried out its duties and responsibilities. Therefore, both the internal auditors and the external auditors must have direct connection with the audit committee. Maintaining the dialogue between the audit committee and the internal audit division management enables the committee to be informed promptly about the problems that confront internal audit or that affect the independence and objectivity.

Management entity to ensure that the responsibilities of the Internal Audit Committee determined it is necessary to follow as members of the Committee to have a level of knowledge and expertise, as well as a judgment and independence.

Results of the activity of the audit committee shall be notified, in writing, to the knowledge of the entity's management analyzes and can make suggestions or request expansion of investigations or investigations.

In our country, Internal Audit Committees were placed in public *Law entities 191/2011 for amending and completing Law No. 672/2002 on public internal audit*. According to the dispositions of the law “central public institutions that developed during the budgetary exercise a budget greater than 2.000.000.000 RON must constitute an internal audit committee to act in order to increase the efficiency of public internal audit activities”, and other public entities optionally may establish internal audit committees.

In accordance with requirements established by regulations established within the internal audit committee which was established within the public entities in our country are collapsed, meaning that they act only in addition to the internal audit departments in order to improve their activity, as follows:

- *debating and approves the multi annual plan and annual plan for public internal audit activity;*
- *analyze and issue an opinion on the recommendations made by the internal auditors, including those which have not been accepted by the management entity;*
- *analyzes and approves the annual report of the public internal audit activity.*

From the analysis of the duties laid down by the internal audit committee it is noticed that they provide public internal audit department an assurance relating to the operation of its activities. Internal audit committees don't have direct connection with the entity and may not meet other responsibilities at its request, but indirectly, through the improvement of internal audit activities, as a result of opinions and opinions expressed, contributes to the improvement of activities and the achievement of entity and supports, at the same time, the independence and effectiveness of the internal audit department.

Members of the audit committee must play an active role in supporting the independence of internal audit and to ensure that it has sufficient resources to provide a proper level and quality of the information provided in the following activity.

### **C. Internal audit**

Internal audit is an independent and objective activity, which gives the public an insurance entity in terms of the degree of control over operations, a guide to improve operations and contribute to adding an extra value. Help the entity to achieve the objectives of assessing, through a systematic and methodical approach of its processes of risk management, control and governance of the Organization, and making proposals to strengthen their effectiveness.

Experts in the field *consider that public internal audit is an essential tool for optimizing the performance of the activities of public utility, through a contribution to the identification of irregularities and disturbances.*

In performing its function, internal audit: evaluates the pertinent and efficacy the control device on the governance of the organization; operations and information systems; the reliability and integrity of financial and operational information; the effectiveness and efficiency of operations; protection of cultural heritage, as well as compliance with laws, regulations and contracts.

You can appreciate that, internal audit is a component of the control system of the organization, which however fails to control, but performs independent analyses and evaluations processes that takes place within it, in order to assess and control system to provide reasonable assurance on the management functionality.

Regarded as the function, internal audit entity is not a managerial activity, but an activity that takes place on the next manager to help and assist in the decisional processes.

From the point of view of its purpose and mission of the internal audit is an intrinsic component of management, and from his point of view, is an autonomous activity specify that requires professionalism and fairness, helping both entity management, as well as people interested in entity.

Types of public internal audit covered and which can be achieved in practice are:

- a) Audit of regularity, which is examining the effects of financial actions on behalf of public funds or public assets, in terms of the observance of the principles, procedural and methodological rules that apply to them;
- b) Performance audit examines if the criteria laid down for the implementation of the objectives and tasks of the public entity is correct to assess the results and appreciates if results are consistent with the objectives;
- c) System audit, which is an evaluation of the depth of management systems and internal control, in order to determine whether they work

economically, efficiently and effectively, to identify deficiencies and formulating recommendations for correcting them.

In terms of coverage area, internal audit included all activities carried out within the framework of public entities, which have a direct or indirect financial implication, which involves the use of a wide range of specialists.

The general objective of internal audit is to assess the risk management systems, control, and governance of the organization, in particular regarding the establishment and the use of public funds and the management of public assets, in order to provide a reasonable assurance that such systems work as it was envisioned, as will enable the organization to achieve the targets and proposed purposes, to propose recommendations for improving them.

For the definition of internal audit is necessary to take into account the fact that the internal audit is a component of the system of control of the entity, which evaluates and improves the efficiency and effectiveness of the system based on risk management, control and managerial processes. Analyzed in this context, the main objectives of internal audit qualify and define as follows:

- *Evaluation of risk management-internal* - audit entity public, offering help to ensure that the risk management system is adequate and sufficient to protect the funds and property of the public, sound management, thus contributing to the identification and evaluation of significant risks and establishing recommendations for the improvement of this system.

- *Assessment of internal control system internal audit* - management of the organization's public support for maintaining an effective and efficient internal control, assessing the reliability of financial and operational information, effectiveness and efficiency of operations, funds management processes and public patrimony, compliance with laws, regulations and contracts. In this context, highlights the significant weaknesses of control devices and propose recommendations for improving internal controls.

- *Evaluation of the governance process of the public entity* - based on the unanimous view that each entity is characterized by an "identity of its own", we consider that the practices adopted by the entity in terms of governance is the result of their own cultures, continuous evolution, which influences the roles, behaviors, determine the causes and strategies objectives, measuring performance and defines responsibilities.

Public internal audit is an essential tool for optimizing the performance of the activities of public utility, through a contribution to the identification of



irregularities and disturbances. The recommendations offered a thoroughly bring management to the strengthening of stability, their objectives, risk management and efficient use of financial resources that they have available to institutions.

Public institution may don't have the performance in terms of where there are irregularities, non-conformance or prejudice of the heritage. Evaluation made by public internal audit considering the functioning of the institution as a whole.

Good international practice in the field of corporate governance principles advice the use, in order to ensure realization of the internal audit function, in order to avoid unwanted events, with consequences on the entity.

#### **D. External audit**

External audit, considered the fourth pillar of corporate governance, based on the provisions of public *Law entities. 94/1992 concerning the organization and functioning of the Court of Auditors, republished, with subsequent modifications.*

The Court of Auditors to exercise external audit function, including the activities of financial audit and performance audit, providing insurance in respect of the reliability of financial reports and to achieve the objectives established entity.

Financial audit activity is exercised on the annual accounts of the execution of the state budget, state social insurance budget, special funds, budgets of administrative-territorial units, budget of state treasury, the budgets of the autonomous public institutions and of the public debt of the state, foreign funds grants budget etc.

The Court of Auditors is the only authority empowered to pronounce on the data contained in the accounts of the execution, above, by certifying the accuracy and reliability of these data.

External Auditors check that these accounts to reflect correctly the financial performance of the entity and its debts and assets at the end of the accounting year. At the end of a mission carried out expressing an opinion on the accounts on the basis of the position adopted.

External auditor carried out test and depending on the obtained results provides a reasonable assurance of management entity regarding the significant weaknesses of internal control, errors or fraud affecting the entity.

#### **Conclusions**

In carrying out the activity of each pillar of corporate governance is based on the activities of the other pillars, but all must work in a timely manner in order

to provide a general assurance concerning the proper functioning of the entity. At the same time, each pillar provides independent assurance to interested persons from outside entities and entity regarding the achievement of entity.

The literature shows a combined insurance model that presupposes the existence of multiple levels of security, with which devices are implemented to ensure the attainment of established entity, as follows:

- Implementation of a control system intern/managerial that assume establishing actions for each internal control standards adopted and their implementation. Implementation of standards control internal/managerial in a timely manner is assurance on the achievement of objectives.

- The second level is considered risk management process, with which the entity to identify risks that may affect the achievement of the objectives, evaluates and treats them with a view to maintaining them within the limits which it has accepted. Proper risk management determine improvement of internal control system/management, as identified with high risk activities involves establishing and implementing appropriate control devices for reducing the risk.

From the analysis are found to these two levels is the responsibility of the management entity, which has the obligation to set up an internal control system is adequate and appropriate managerial/who to detect lack of internal control and risk management process that ensures a proper risk management and to prevent the expression of them.

- The third level is the one represented by the internal audit and external audit, which evaluates the first two levels and provide independent insurance in respect of their operation and the ability of the entity to achieve its objectives.

Corporate governance in public entities must establish appropriate management systems to meet the interests of the State and its citizens, and these in turn driving systems, which represent the key elements of improve efficiency and economic growth, we must provide solutions for achieving the targets.

The concept of corporate governance is supported by internal audit, which play an important role in assisting the reorganization system of internal control and advising management.

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## **CULTURE, UNIVERSAL (OR NOT) PREFERENCES AND SOCIAL WELFARE<sup>1</sup>**

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### **Abstract:**

*Real economic systems—at least during the past two hundred years or so—undergo rapid, qualitative and irreversible change. Economic change may be driven by exogenous factors such as changing resource endowments or climate change and also by different patterns and speeds of cultural adaptation, institutional change, and historical accidents.*

*To explain economic behavior, we need to move beyond the simplifying idea of Homo economicus. Without independent and rational agents economic theory loses its mathematical certainty. Studies in the field of game theory and behavioral economics promoted experiments that further the traditional economic conception of human behavior and emphasize the importance of cultural differences in determining economic behavior.*

*Modern welfare economics is increasingly interdisciplinary and influenced by psychology, sociology and anthropology and incorporates concepts such as interpersonal comparisons of utility and endogenous preferences.*

*This paper discusses how the existence of endogenous preferences and cultural institutions is the essential explanation to why the neoclassical model of competitive economies can not be adopted in every country.*

**Keywords:** endogenous preferences, culture, institutions, social welfare

### **1. Introduction**

The goal of New Welfare Economics (NEW) was to establish a positive economics based on the sanctity of individual choice. A major source of controversy in economic theory, at least since the days of Thorstein Veblen at the turn of the last century, is the notion of ‘economic man’ or *Homo economicus*. Neoclassical

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<sup>1</sup> This paper presents some of the results of the research theme "Integrated multiscale analysis of socioeconomic metabolism: Romanian households and the evolution of poverty" of the research program of the Institute of Economic Forecasting of the NIER, Romanian Academy

welfare economics characterizes human behavior as independent of social and cultural context, that is, preferences are considered to be *exogenous*. In the welfare model, the basic characteristics of rational economic man do not vary from country to country or from culture to culture. *Homo economicus* is narrowly rational, always consistent in his choices, insatiable in consumption, and egocentric to the point of having no social responsibilities other than maximizing his own happiness. This approach to describing human behavior is the subject of heated controversy when applied to many complex phenomena such as ecosystem health, long-term climate change, or the development of the macroeconomy.

The new welfare economics assumes that the basic units of analysis are individual consumers and individual firms. These units can be cast either as ‘representative agents’ or as the ‘average’ behavior of aggregate firms and households [van den Bergh and Gowdy 2003]. Human beings are reduced to “homogenous globules of desire” to use Veblen’s [1898] characterization of economic man. Human behavior is assumed to be so universal that cultural differences are inconsequential and may safely be ignored. All individuals strive to maximize utility by choosing logically and consistently among alternatives. Likewise, firms are assumed to be concerned solely with maximizing profits.

The developing alternative recognizes that the behavior of individuals and firms cannot be adequately represented without considering the *interdependencies* between them and this requires an approach allowing for multiple equilibria, interactions between agents, and recognizing that relying on a universal model to describe all human behavior and human cultures may be inappropriate. The experience of the last decades has demonstrated the limitations of welfare economic models and of the policies based on them. Policy failures in the areas of economic development, climate change, and biodiversity loss among others, have brought to the surface long-neglected questions about the basic assumptions and policy relevance of welfare economics. These controversies have also exposed the gap between theoretical advances in neoclassical economics and the applied work being done by mainstream economists. Extending the standard economic model of human behavior has been the research focus of recent Nobel Prize winners in Economic Science—Amartya Sen (1998 winner), Gary Akerlof and Joseph Stiglitz (2001 winners) and Daniel Kahneman and Vernon Smith (2002 winners). Recognition from the Nobel committee of their path-breaking contributions shows that the economic profession increasingly appreciates this kind of work.

## 2. Culture, preferences and empirical evidence

Georgescu-Roegen [1966] pointed out that the attempt to build economic science in a similar way to physics led to the assumption of exogenous preferences for consumers and to ignore the endogenous nature of preferences and the importance of institutions. Contemporary research in behavioral and institutional economics could help build the empirical database needed to reform/replace the standard welfare theory.

Criticisms of *Homo economicus* are not new. But they have taken on a new life with the current resurgence of theoretical and empirical work in behavioral economics, experimental economics, and game theory. Recent empirical evidence collected in a variety of cultural settings has demonstrated consistent deviations from the standard economic model of behavior [Alesina and Ferrara 2000; Gil-White 2001; Gintis 2000]. The general conclusion is that behavior is strongly influenced by cultural conditioning. Also, humans consistently behave more altruistically than the standard economic model predicts. While economists recognize that individuals may be motivated by intrinsic considerations, such as a sense of honesty, trust, fairness or commitment, they have either shied away from altruism “almost comically” [Samuelson 1993], or have adopted an approach to altruism based on the rational actor model. Recent empirical evidence suggests that it is more analytically useful to recognize the complex and multifaceted characteristics of human behavior. People act both selfishly and cooperatively [Caporael 1997], and they adhere to social norms and values that often generate immediate disutility for themselves [Fehr and Gächter 2002].

These empirical studies offer support for the “utility function” Georgescu-Roegen [1960] proposed:  $\Omega = \psi(Y; Y_s)$ . Utility is a function not only of individual utility  $Y$  but also  $Y_s$ , which stands for the “criteria by which the individual views the welfare of his community.” This result, however, cannot be incorporated into the framework of the New Welfare Economics. If the utility of one individual depends on that of another, then constrained utility maximization is undefined [Henderson and Quandt 1980, 297]. The optimal consumption of one person depends on the optimal consumption of the other and a unique equilibrium cannot be obtained. A realistic model of human economic behavior is inconsistent with standard welfare theory. Again, this argument has been made for over one hundred years [Veblen 1898], but the difference today is that economists can explain pro-social behavior in formal game-theory models that can be analyzed mathematically

and tested experimentally. The critique of economic man has reached a state of sophistication so as to be able to enter the mainstream.

The ultimate impact on welfare theory of these new results from behavioral economics and game theory is hard to gage. Rational economic man is a key underpinning of the desirability of market outcomes and economists are quite vocal in touting the sanctity of individual preferences. In surveys by economists eliciting preferences, the common practice among surveyors is to throw out 'protest bids' that do not conform to the stylized description of behavior dictated by the axioms of consumer choice.

### **3. Preferences and Economic Policy**

Aristotle and David Hume considered complementary behavioral theories. For Hume [1898[1754], 117] "Political writers have established it as a maxim, that, in contriving any system of government...every man ought to be supposed to be a knave and have no other end, in all his actions, than his private interest" while for Aristotle [1962, 1103] "Lawgivers make the citizen good by inculcating habits in them, and this is the aim of every lawgiver; if he does not succeed in doing that, his legislation is a failure. It is in this that a good constitution differs from a bad one." Economists have followed Hume...

As discussed above, the intent of the NWE was to make economics a true science, that is, to separate factual statements from value judgments. Interpersonal comparisons of utility were to be avoided. This was the major task of the economic man construct. Human preferences were the starting point of economics regardless of where they came from. Friedman [1962] justifies the traditional assumption of exogenous preferences.

Current work in neoclassical welfare economics questions the exogenous preferences approach, and more and more, considers preferences to be endogenous. In a way this current work is a return to the beginnings of neoclassical economics. More than one century ago, Marshall in his *Principles* mentions the importance of non-selfish motives and other preferences that are unknown to *Homo economicus*. Daily activities and the social and cultural institutions influence human preferences. Also, past training and activities influence preference formation. On the first page of *Principles* Marshall [1920[1890], 1] states:

...man's character has been moulded by his everyday work, and the material resources which he thereby procures, more than by any other influence unless it be that of his religious ideals...



Later on the same page he adds:

his character is being formed by the way in which he uses his faculties in his work, by the thoughts and the feelings which it suggests, and by his relations to his associates in work, his employers or his employees.

But Marshall's modern ideas were forgotten in favor of the more mathematically elegant Walrasian model.

Bowles [1998] asserts that assumptions about preferences may influence the effectiveness of economic policies while Hirschman [1985] suggests that the view of most economists regarding preferences leads to an underlying bias in favor of incentives to modify behavior.

The discussion of 'Pareto Efficiency,' 'Potential Pareto Improvement,' and 'Endogenous vs. Exogenous preferences' is important to contemporary environmental and development policies. The theoretical difficulties relating to the notion of a potential Pareto improvement are directly related to the almost exclusive reliance on the competitive market and the underlying rationality assumptions of development policies.

Calcott [2001, 2] discusses the 'efficiency criterion' and its stress on the view that government policies should be evaluated according to their effects on total surplus. Koning and Jongeneel [1997] discuss how in applied economics, the concept of a 'Potential Pareto Improvement' as an actual improvement is used in the literature to justify policies about welfare state reform, liberalization of foreign trade and investment, and European integration.

Chipman [1978, 580] observes that by accepting the concept of a Pareto-Barone-Samuelson welfare ordering, the compensation principle leads to "a very different conclusion than the founders of the New Welfare Economics had in mind: the need for an activist policy for the determination of the distribution of income and wealth, rather than exclusive reliance on market forces combined with a given pattern of private ownership of resources." Chipman [1978, 581] concludes that, after 35 years of technical discussions about welfare theory, we are forced to return to Robbins' 1932 position "We cannot make policy recommendations except on the basis of value judgments, and these values should be made explicit." In presenting the utilitarian justification for egalitarian measures Robbins stated [1938, 638]: "If [Henry] Maine's Brahmin had told me that members of such and such a caste or race were eligible for taxation ten times as heavy as others, since they were only one-tenth as capable of true happiness, the strength of my resistance would not have rested on belief in the social law of diminishing marginal utility.

The belief that that helped could only rest on the prospect of putting up a smoke-screen of technical jargon to terrify an ignorant antagonist...” Chipman [1978, 581] responds to this quote by observing: “When all is said and done, the New Welfare Economics has succeeded in replacing the utilitarian smoke-screen by a still thicker and more terrifying smoke-screen on its own.”

Bowles [1998, 22] suggests that “preference endogeneity gives rise to a kind of market failure” which requires a different welfare economics “encompassing the effects of economic policies and institutions on preferences and for this reason more adequate for the consideration of an appropriate mix of markets, communities, families, and states in economic governance.” The general conclusion of contemporary welfare theorists is that we should judge policies and institutions according to how effectively they function in a world characterized, not by perfect competition and rational behavior, but rather by uncorrectable market failure, imperfect competition and uneven political and economic power [Bowles and Gintis 2000].

#### **4. Conclusions**

Once we move beyond the rational actor approach to explaining economic behavior, the role of institutions becomes central. Without rational, independent agents economic theory loses the mathematical certainty of general equilibrium welfare economics. Institutions can no longer be analyzed solely in terms of their contributions to the efficiency of competitive markets. Not only can inefficient institutions persist, it is not even clear what the terms "efficient" and "inefficient" mean. If choices are not narrowly rational, independent, and consistent, then the outcomes of these decisions may not indicate an economic optimum.

Recent work has examined the role of institutions in shaping economic behavior. Work from game theory and behavioral economics has gone beyond the traditional economic conception of human behavior and revealed the importance of cultural differences in determining economic behavior. According to Henrich et al. [2001, 73] these studies "have uncovered large, consistent deviations from the predictions of the textbook representation of *Homo economicus*." People care about fairness and reciprocity and they are willing to punish, at substantial costs to themselves, those who deviate from acceptable social norms [Fehr and Gächter 2002, Henrich 2000].

Just as endogenous models of technological change [Arthur 1990] are transforming the way we look at firm behavior, so too are endogenous models of

human behavior beginning to change the way we look at individual decision-making. A number of approaches to explaining the institutional context of economic behavior are being developed. Nelson and Winter [1982] stress the importance of “routines” in shaping economic behavior. Following Veblen, they argue that habits and routines are quite stable over time and are frequently more important in explaining economic behavior than is rational choice. People often decide how to act by merely copying established patterns of action. Henrich also argues that human behavioral change cannot be explained by the accumulated actions of rational individuals choosing the most efficient solution to an economic problem. Henrich shows that, even after allowing for incomplete information and trial and error processes, individual-level models cannot explain the “S-shaped” pattern of innovation diffusion widely seen in the innovation literature. He argues that this pattern *can* be explained by biased cultural transmission. These new insights into the institutional context of economic behavior have important consequences for economic theory and policy.

The existence of endogenous preferences and cultural institutions is central to the debate in development economics about whether or not the neoclassical model of competitive economies is applicable everywhere. That is, is there one linear, progressive development path that will transform all “backward” countries into American economic clones? Stiglitz [2000] argues that in neoclassical development policy, local institutions and cultures are ignored as factors in stabilizing or destabilizing an economy. He argues that in the model of perfect competition, humans are regarded as being the same all over the world, rational, self-interested, insatiable, pleasure maximizing creatures. The local color of institutions is ignored and thus the entire social network in a particular country.

In the welfare economics framework, policies are directed at changing the non-developing or underdeveloped economies to become similar to what is considered the “successful” system, the Western type. This approach underlies the policy recommendations made nowadays by international organizations like the World Bank, the International Monetary Fund (IMF), and the World Trade Organization (WTO). It is true that the World Bank and other international agencies are financing small-scale projects by involving local communities in their design and implementation. But is also true that the economic side of those projects uses the concepts and the tools of the New Welfare Economics that gives them an incomplete image of the problem they try to solve.

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## **YOUTH LABOUR MARKET: CHARACTERISTICS AND SPECIFIC ISSUES**

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### ***Abstract:***

*Young people play a crucial role in meeting many challenges and socio-economic, demographic, cultural, environmental and technological opportunities that the European Union and its citizens face now and will face in the coming years.*

*Promoting social and professional integration of young people is an essential component for achieving the objectives of "Europe 2020" Strategy.*

*Although today most young Europeans enjoy good living conditions, there are still challenges that require resolution, such as youth unemployment, young people not receiving education or training, poverty among youth, low levels of participation and representation of young people in the democratic process, and various health problems. The recent economic downturn has had a significant negative impact on young people and the risk is for its effects to be long-term.*

*This paper presents a brief characterization of the European Union labour market and an analysis of the youth labour market particularities in Romania compared to EU-27 or other EU countries.*

**Keywords:** youth employment, unemployment, labour market insertion

### **1. Introduction**

The social inclusion of young people issue, young people who represent one fifth of the total population of Europe, was always present on the political agenda, but only in the last two decades it received a special attention.

For the period 2010-2018, EU directives regarding youth were gathered in the strategic document "Youth - Investing and Empowering" ("EU Strategy for Youth - Investing and Empowering. A Renewed open method of coordination to

address youth Challenges and Opportunities") concerning policies relating to young people in Europe in terms of education, employment, social inclusion, civic participation, entrepreneurship etc.

The main objectives of the European Strategy for Youth are: i) providing youth access to education and to the labour market, ii) civic participation, social inclusion and solidarity.

In a context of increasingly high unemployment, young people are finding it harder to find a job, and many of them might decide to extend or resume studies. This could be an investment for the future, with the condition to get the right skills. However, the reality is that many young people neither work nor study.

Currently, more than 5 million young people in the EU are unemployed. Between 2008 and 2012, this number has increased by about a million.

This means that one in five young people in the labour market can not find a job. Youth unemployment rate (over 20%) is two times higher than for the whole working population and almost three times higher than the rate for adult working population. In some countries, this rate reaches up to 40%. For the same country, the situation can vary significantly from one region to another. In addition, certain groups of young people (including women, youth with disabilities and young people from migrant backgrounds) are particularly at risk of unemployment, long term unemployment, early school leaving or inactivity.

The low participation of youth in the labour market was seen also as one of the main challenges in the short and medium term in the National Strategy on Social Protection and Social Inclusion 2008-2010.

In our country, as a result of rising unemployment rates, "the National Development Plan 2007-2013" (NDP) proposed by the Government establishes the problem of labour-market integration of young people as a priority action. Government documents closely correlate labour-market integration of young people with the ability of the education system to provide relevant skills and qualifications adapted to the market.

## **2. General characteristics of youth labour market**

*"World of Work Report 2011: Making markets work for jobs"* compiled by the International Labour Organization of the United Nations states that *"Austerity has not produced more growth. Poorly designed labour market reforms will not work as well in the short term. In times of crisis, such reforms tend to lead to the extinction of even more jobs and the emergence of very few jobs, at least in the*



*short term*" (Raymond Torres, director of the ILO Institute for International Work Studies and one of the authors of the report).

According to the report, in the coming years it is unlikely for the global economy to have such a growth rate to be able to attract to the labour force presently unemployed people and other almost 80 million people waiting to enter the labour market.

In the European countries the situation is critical; since 2010 the unemployment rate increased for these countries by almost two-thirds.

The deterioration of the labour market is a feature of economies around the world, but it is more obvious in Europe, where unemployment is growing stronger. *"The narrow focus of many euro zone countries on fiscal austerity deepens the crisis of jobs and could lead to a new recession in Europe. Besides, there is less and less progress in other parts of the world, for example in the United States, where reducing unemployment seems to have gotten a slowing trend,"* writes Torres in the Report<sup>2</sup>.

Labour market crisis is particularly strong in developed economies; in 2012, the unemployment rate was expected to reach globally 18% for young people (report "Global Employment Trends for Youth 2012").

The analyses conducted by the International Labour Organization show that the number of unemployed young people will not drop until at least 2016. An additional pressure on the unemployment rate is expected to take place when those who prolong their studies due to limited prospects of finding a job will eventually enter the labour market.

In particular raise concerns those young people who are neither employed nor in any form of education or training. They are known under the acronym of "NEET" in many countries, "disconnected youth" in the United States and "no-no" Spanish-speaking countries.

Following the recession, their number increased, so that in 2012, 15.6% of the young people in the United States were neither employed nor in education nor were training and for the European Union this percentage rose to 13.2%. This percentage varies significantly from one Member State to another, from 4.7% in the Netherlands to 21.6% in Greece and 1.5% in Bulgaria. In Romania, 18.6% of people aged between 15 and 24 years are categorized as NEET. The data for the 27

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<sup>2</sup> The report *"World of Work Report 2011: Making markets work for jobs"* conducted by the International Labour Organisation of the UN

EU economies indicates an average of 11.79% for NEET young men and 12.07% for young women.

The economic and financial crisis reflects a strong interrelationship between the changing economic conditions and the development of youth unemployment (Blanchflower and Freeman, 2000).

These claims are bolstered by statistics for a longer period of time on level (average) youth unemployment and the relationship between youth unemployment and adult unemployment. Also, the level of youth unemployment during the crisis varies from country to country, depending on the concrete conditions of those economies (Blanchflower and Freeman, 2000; OECD, 2006).

Initially, in the analysis of youth unemployment, a special emphasis was placed on structural components (structural changes in industries, inadequate qualifications for market requirements, characteristics of youth groups, etc.) (Clark and Summer, 1982 and Freeman Blanchflower, 2000). At the beginning of this century, the unemployment rate approaches considered also the effects of economic and institutional cycles.

Authors like Blanchflower and Freeman (2000) and Rodriguez-Palenzuela Jimeneo (2002) showed that the effects of economic cycles on unemployment are more pronounced among young people than among adults.

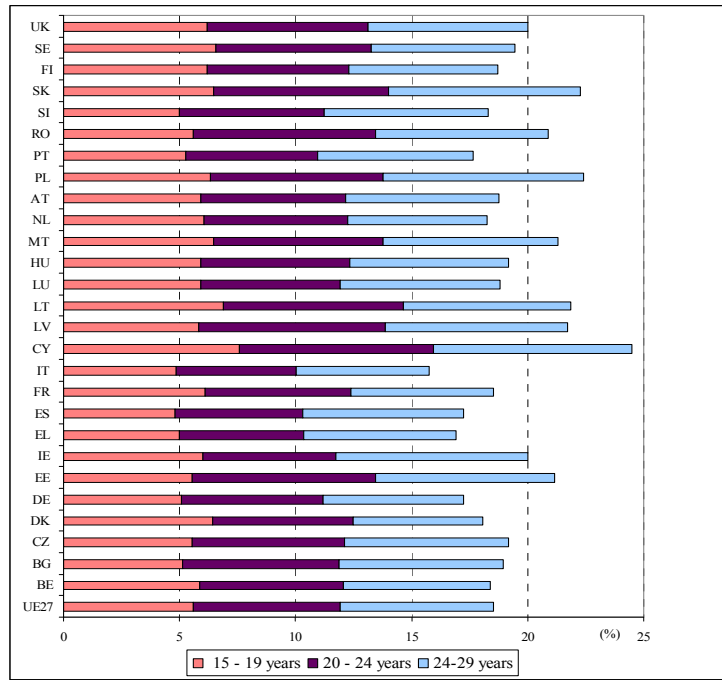
Lack of seniority, firm-specific human capital, young people labour market experience, higher probability to work in the firm for a fixed-term and other forms of precarious employment are just a few factors that lead to an increase of unemployed youth.

In such circumstances, the transition from school to the labour market tends to be a chain of temporary episodes of training, education, military or civilian service compulsory or voluntary, temporary activities, often within an institutional framework characterized mostly of fixed data for entry, outside of the market and which does not consider the requirements of the labour market. In these circumstances, young people accumulate less experience looking for a job and do not develop a clear picture of employment and / or of the satisfying income. Add to this is the fact that in some countries, young people have fewer resources than older workers, while in others, they have a strong financial attachment to the family, making them less mobile in search of employment.

The statistics of the last decades show a continuous increase in life expectancy in Europe, with an impact on the overall organization of life and its

main stages: school, work, the decision to have children and retirement, which individually tend to become longer over time.

**Figure 1** Young people (15-19, 20-24, 25-29 years) as a share of total population on 1 January 2011



Source: Eurostat Statistics (online date code: [demo\_pjangroup])

In this context, international organizations’ population projections indicate that in 2050 the population in the age group 15-29 will represent 15.3% of Europe’s population, compared to 18.53% in 2011.

In 2011, Eurostat indicated that in the European Union were 93,154,428 persons aged between 15 and 29 years. Of these, 33,342,039 persons were aged between 24 and 29 years (Figure 1).

In the nearest future, the European Union will face two major demographic challenges: aging and reduced population. The share of young people will continue to decline, while that of older people will increase. In this context, the characteristics of the active population will change.

In 2011, the employment rate of young people in the EU-27 was 33.6%, down by 6.9 pp compared to 2000 and by 3.7 pp compared to 2007.

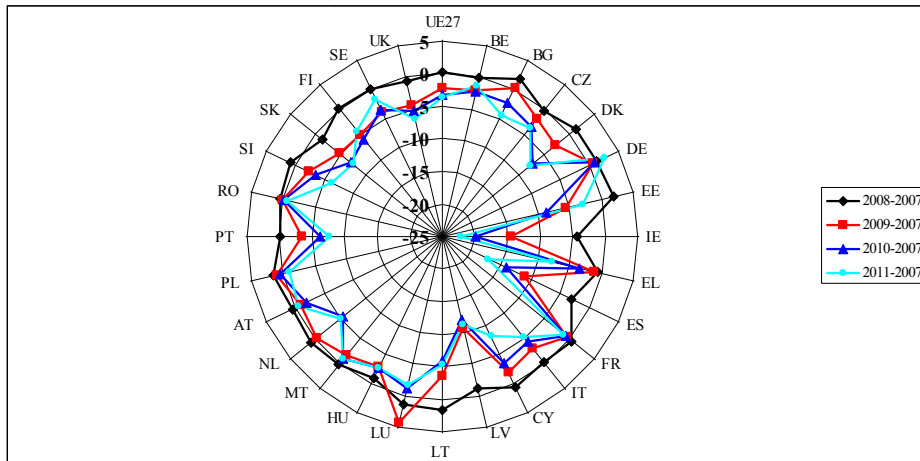
In most Member States, the employment rate of young people aged 15-24 years was higher for men, except Ireland, Denmark, the Netherlands, Finland and Sweden.

Following the economic and financial crisis, the employment rate of people aged 15-24 years fell in the vast majority of Member States since 2008 (Figure 2), in 2010 was recorded the most pronounced decrease of the employment rate of this age group (Figure 2). Although in 2011 employment rate values were below the 2007 level, for the vast majority of EU countries, however, Eurostat statistics for this indicator show a slight increase.

For the period considered, Germany is the only EU-27 country with a slight increase in the employment rate of young people aged 15-24 years (Figure 2).

Crisis impacted the labour market in Bulgaria, Romania, Poland and Luxemburg until 2010, when there were reductions in youth employment rates, reductions that increased in 2011 (Figure 2).

Figure 2 Employment dynamics in Member States



Source: Eurostat Statistics (online date code: [lfsi\_emp\_a])

The crisis has had a high social cost in Europe, with a sharp increase in unemployment. Eurostat statistics for 2011 indicate 23,208,000 unemployed, of which 5.297 million young people aged less than 25 years.

**The unemployment rate** for the people under 25 years was 21.4% in 2011, up by 5.7 pp compared to 2007. Since 2008, EU-27 unemployment rate among men younger than 25 years was higher than that of women in the same age group (21.9% versus 20.8% for women in 2011). Rising unemployment was more

pronounced in 2011 than in 2007 among men than among women: 6.5 pp for men and 4.7 pp for women.

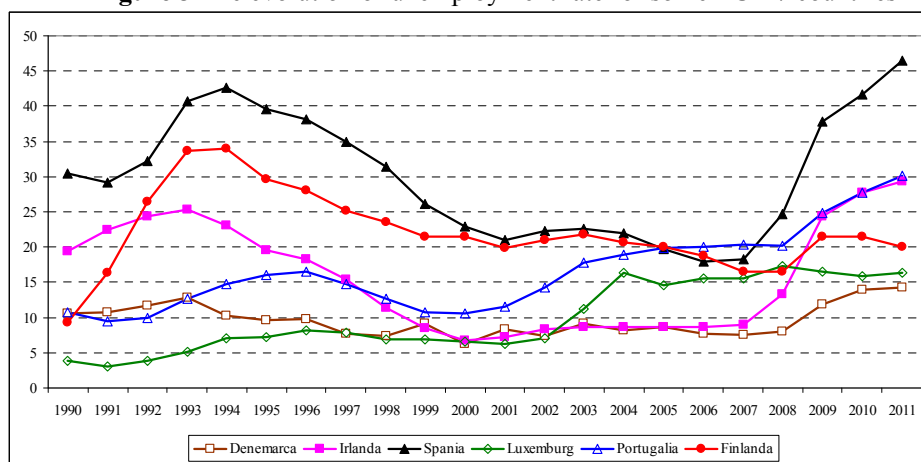
However, statistical analysis of European unemployment rate among young people in the last two decades shows major fluctuations with significant national variations.

For example, the youth unemployment rate in Finland was 9.3% in 1990, peaked in 1994 (34%), then oscillated around 21% during 1999-2005, reaching a minimum of 16.5% between 2007 and 2008 and rose to 21.5% in 2009 and 2010 (reaching 20.1% in 2011) (Figure 3).

In 1990, Spain registered an unemployment rate of 30.5% for young people, which in 1994 grew to 42.6%. It followed a slowing period, so in 2006, the unemployment rate of the population aged less than 25 years was 17.9%. In 2011, the economic downturn has resulted in its growth to 46.4% (Figure 3).

For Luxembourg, unemployment rate among young people was around 3% in the 1990-1992 period, after which it increased, while maintaining its level less than 10%. Year 2003 is the first year when youth unemployment rate has exceeded 10% and in 2004 it recorded a maximum of 16.4%. The impact of the financial crisis on youth unemployment rate was not significant: in 2007 the youth unemployment rate was 15.6% and 17.3% in 2008, after which in 2011 it decreased to 16.4% (figure 3).

**Figure 3** The evolution of unemployment rate for some EU-27 countries



Source: Eurostat Statistics (online date code: [une\_rt\_a])

The problems faced by young people in the labour market have a significant impact on their living standards, their families and on national and international communities whose members they are. The most important effects of youth inactivity are the risk of poverty and the inability to play an active role in society.

At the end of 2011, the number of young unemployed was estimated around 5.297 million people, slightly down from the previous year.

In 2011, the highest values of the unemployment rate, over 30%, were recorded in Spain (46.4%), Greece (44.4%), Slovakia (33.5%), Lithuania (32.9%), Latvia (31%) and Portugal (30.1%). Romania recorded a 23.7% unemployment rate among young people, increasing by 1.6 pp compared to 2010.

**The unemployment rate among young people is dependent on their level of training.** Data analysis indicates that for the first quarter of 2012, the highest unemployment was for young people with pre-school, primary and secondary education (levels 0-2). The exceptions are Greece, where unemployment among young people with higher education (levels 5 and 6) was 6.1 percentage points higher than that recorded for young with pre-school, primary and secondary education (levels 0-2), Romania and Cyprus, where the difference between the rate of unemployment for youth with higher education and those with education levels 0-2 or 3-4 are significant.

Comparative analysis of youth unemployment rates with different levels of training highlights the fact that both in 2009 and in 2011, for the vast majority of Member States, unemployment rate was even lower as the level of preparation was higher. Exceptions are Greece, Romania, Cyprus and Slovenia, where unemployment rate for educated youth was higher than that for young people with high school or elementary education (6.1 pp, 9.2 pp, 0.7 pp and 4, 2 pp).

### **3. Conclusions**

The analysis of indicators showing labour market situation for young people in the EU, leads to a number of conclusions, including:

- The average duration of a job search in the period 2008-2011 increased significantly, contributing to discouraging even more young people to seek a job;
- Discrepancies between the employability of an educated young person and an uneducated one is also increasing, so that not only the duration of the search

for a job for a young specialist is lower than for a young uneducated, but also the unemployment rate shows a considerable difference;

- The European Union is the region where unemployment is dependent on the level of education of the young and employability decreases proportionally to the years of study;

- Due to a high unemployment rate in the European Union, the purchasing power of young people was reduced and not only people's daily consumption saw a significant decrease, but also purchases of high value (e.g. real estate);

- During 2011 a much larger number of young people intended to continue their studies after a period of rest, being discouraged by the futile search for a job, but encouraged to obtain a diploma later to increase their chances for employment;

- In European Union Member States, the change of society's structure was determined, among other factors, by *youth mobility* within the EU and *youth migration* from other EU neighboring countries, former colonies of the Member States, or other countries outside Europe;

- A series of programs at EU level were launched to support young people labour market mobility;

- Non-formal learning can also help address youth unemployment.

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## **ECONOMICS**



## **COULD THE PRESENT ECONOMIC-FINANCIAL CRISIS GIVE A NEW IMPETUS TO THE FIGHT AGAINST CORRUPTION AND THE UNDERGROUND ECONOMY?**

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“When circumstances change, even the strongest one seeks help from the  
feeblest one”

Aesop, Father of the Myth, 625 BC

### **Abstract:**

*This paper reveals the main features of corruption and of the underground economy, giving consideration to the fact that a diminution of such phenomena could and should be one to restore the public financial equilibrium in Romania. When in a society the shameless win, when the abuser is admired, when no principles are valued and opportunism is praised, when the insolent lead and people tolerate this, when everything is corrupt and the majority is silent, when there are so many “when”, maybe it’s the time not to hide any longer, to cease the battle, to analyse our activity, to reevaluate the people around us and not to retreat inside ourselves. When corruption is systemic, we should counteract the harmful opinion that there is impunity. If not, then our efforts to combat corruption and improve the administration might not be taken seriously. People are cynical before corruption. The citizens, as well the bureaucrats, have heard all these nice words before. They have even seen some minor investigations. But the culture of corruption is persistent, just like the belief that high-ranked people are intangible.*

**Keywords:** crisis, underground economy, corruption, sustainable economy

### **1. Introduction**

The present crisis reveals several inappropriate behaviours, inconsistencies, some interests that differ both microeconomically with regard to individuals and macroeconomically at the state level. The interaction among institutions, their rules, the policies promoted and the area where the main actors work, as well as markets show that some failures, unless they are detected in time and correction measures

are taken, could cause what we identify today to be one of the severe economic crises.

To understand the present financial and economic crisis, and to get over some quite shocking comments and many conspirationist visions, we could resort to the science bequeathed to us by the great masters of economics to find the elements that could maintain equilibrium inside the new order that seems to come.

An example is C. C. Kiriteşcu<sup>3</sup>, an economist researcher and an appreciated analyst, who witnessed two international monetary reforms, i.e. the creation of the Bretton Woods system after World War II and the elimination of the gold standard in the 1970s, which he commented on, documented and even foresaw.

“Tomorrow’s world, Kiriteşcu says, cannot be grounded on sick national economies. And healthy national economies cannot exist without the aid of healthy currencies”<sup>4</sup>. But it is not only the currency health that we consider here.

An economy is healthy when diseases do not reach a level that could endanger stability. I am very sure that Romania is capable to promote political stability. I am very sure that Romania is capable to promote political leaders and public managers who have enough courage to name such diseases like corruption and underground economy, to recognize their symptoms inside the organisations where they work and to make necessary changes to cure them, especially when they are stimulated to do so.

We are quite anxious when we hear that in the world there were national or regional economies where the level of such diseases was so high that the whole body of the state was in danger. But researcher and practitioners, who later became strong personalities, succeeded in preventing such very severe phenomena that affected the purchasing power, the living standard, the poorest people and, in general, the quality of life.

It is easy to understand that the prevention of the two very destructive phenomena – corruption and underground economy – helps us to increase incomes, to improve public services, to stimulate confidence and the public to participate in winning elections, to make the two essential (political and economic) components

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<sup>3</sup> Costin C. Kiriteşcu (born on 25<sup>th</sup> May, 1908, in Bucharest – died on 13<sup>th</sup> December, 2002), economist, member of the Romanian Academy, the author of the monumental work *Sistemul banesc al leului si precursorii sai* (“The leu system and precursors”) cited by N. Pop *et al.* in *Despre criza, cu discernamant si fara manie*, Editura Expert, 2010.

<sup>4</sup> C. C. Kiriteşcu, *Aspecte ale problemei monetare contemporane* (“Aspects of the contemporary monetary issue”), p. 27, Editura Enciclopedica, Bucuresti.

work together to the benefit of a third component, i.e. the social one, as we wrote above.

The seriousness of the present financial and economic crisis is revealed not only by abundant economic information but also by the action taken by the political circles to find solutions. It is man who plays a leading role in this financial and economic crisis: “The most serious economic crisis since the Great Depression is not a natural phenomenon, but a disaster caused by man, in which we all play a role”<sup>5</sup>. Here we cite Acad. Mircea Malița who – in April 2010, at the Romanian Academy – supported very convincingly the theory of the crisis that take place *only* on man’s mind. But, unhappily, it does not stay in there, said Mircea Malița.

Man’s role should not be ignored, because, in my opinion, the solution could be found just here. It would be very necessary to consider this for a strong economic construction, able to provide social occupations for the people, economic consolidation, social benefits, and better quality of life.

Always, in apparently desperate situations, resources come from inside, by better mobilization, by giving up excesses, greed, and the rush for more that one needs, in general, aspects, related mainly to man. Napoleon Pop, Amalia Fugaru and Valeriu Ioan-Franc in *Despre criză, fără mânie și cu discernământ*<sup>6</sup> (“On the crisis without anger but with discernment”) say that moral conduct plays a major role: “Another aspect, to which one must pay – maybe – the greatest attention, is the relevance of a moral human behaviour in the area where the society invested most confidence – the financial system. In fact, all measures for regulating and monitoring financial markets hide, finally, a concern about this aspect of the crisis causes, less commented on, but crucial for what we call the trust crisis. This crisis unveiled the doubt about morality, the antithesis between greed and integrity, because what is the propensity for risk if not an appetite for gains?”...

If we are to find out what is the origin of the irreversible temptation to be corrupt and/or to obtain untaxed money from hidden activities, it is worth dealing with several causes mentioned by a Nicaraguan accountant, Francisco Ramírez Torres<sup>7</sup>, who widely discusses the fact that such behaviour of man is determined by factors such as family, school, attitude towards work, economic activity or religion, nation and international situation. As for the individual he mentions as causes of

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<sup>5</sup> *The Guardian*, January 29<sup>th</sup>, 2009.

<sup>6</sup> Napoleon Pop, Amalia Fugaru, Valeriu Ioan-Franc – 2010, *Despre criza, fara manie si cu discernamant*, Bucuresti, Editura Expert, p. 14.

<sup>7</sup> Francisco Ramírez Torres, *Los delitos económicos en los negocios*, Managua, Talles de Don Bosco, 1990, pp.22-26, 40-50.

corruption excessive drinking, extra conjugal affairs, losses caused by financial speculations, gambling, administrative disorganisation, thirst for illegal wealth a.s.o.

Very actual are the words of C.C. Kirişescu, who said in his work cited above that “Today we are in a world that, ..., is seeking equilibrium for the years to come. Mankind is seeking a finally peaceful settlement, one that should no longer be hindered by the fear of losing again ... elementary rights of human existence. The way to such settlement is not easy. Many problems of living together facing the people and the peoples occur always and everywhere, being both political and economic”.

These words have a special impact, especially when the world is facing a crisis that affects all national financial systems. In my opinion, if the two phenomena, corruption and underground economy, which are increasingly present in national economies, would be severely limited, close to zero, we could speak about services of higher quality provided by the state, public works to the general interest, better living conditions, a higher living standard.

## **2. Underground economy, hidden economy**

Underground economy, also known as hidden economy, is increasingly mentioned by scientific and academic circles and mass media as well. We are aware that strong and urgent measures are needed against tax evasion – consisting in non-payment of duties or taxes on wage and on purchases of goods, services at very high costs, useless investments, which are more and more frequent even in developed countries – as well as against black labour. Tens of billions of euro, often undeclared and untaxed, are under offshore jurisdiction, thus diminishing national tax revenues. Because of the extent of this phenomenon, the intensification of the fight against fraud and tax evasion is not only a matter of income but also one of equity.

One part of tax evasion is undeclared labour in itself, having consequences for indirect tax diminution; the measures taken to combat undeclared labour were presented in COM (2007) 628. The advantage of dealing with this issue could be significant. According to estimates, only the recent initiatives of voluntary compliance, following the G-20 Initiative, could mobilize 10 billion euro for two years for the EU member states in question [3]. By diminishing fraud and tax evasion, member states could increase tax revenues, which will provide a larger

margin of action for restructuring their tax systems in a way to promote growth in accordance with the 2012 annual analysis of growth [4].

### **3. Corruption**

Corruption affects the world, is everywhere and concerns the entire society. It equally occurs in developed countries and in poor countries, but to a greater extent in economies in transition from an economic system to another.

An example is Japan, where – according to a recent study – local administration has three times more employees than the national one and fifteen times more cases of corruption are reported and four times more civil servants are arrested.<sup>8</sup>

In New York City, the cost of corruption found only in school construction reached thousands of millions of dollars.<sup>9</sup>

What stems out of the two examples is the idea that administrations, especially local ones, are often blamed not only for inefficient management of funds but also for using public funds to fill the pockets of private companies.

The most serious forms of corruption are those represented by organized corruption as it is described in a report<sup>10</sup> on the Hong Kong police in the early 1970s, an institution on the hands of drug smugglers, patrons of illegal games and pimps who paid the police not to interfere in their business.

If corruption is allowed to extend, it would conquer the whole system of the state.

Combating corruption may be economically approached by a strategy extended from the local level to the national one, leaving, of course, room for further improvement.

To be successful, first we should admit that there is corruption and we can combat it. So we have to understand corrupt systems, and for this we need concrete instruments, analysis and assessment of the mode of operation of some corrupt systems in specific circumstances, overcoming of political and bureaucratic obstacles and getting support, organisation of the fight against corruption by a plan

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<sup>8</sup> OECD, Symposium on Corruption and Good Governance, Paris, 3rd Session, March 13<sup>th</sup> - 14<sup>th</sup>, 1995, p.2.

<sup>9</sup> Thomas D. Thacher II, "The New York City Construction Authority's Office of the Inspector General: A Successful Strategy of Reforming Public Contracting in the Construction Industry", unpublished case study.

<sup>10</sup> Excerpt from *Second Report of the Commission of Enquiry under Sir Alistair Blair-Kerr*, Hong Kong, 1973.

in stages in order to cure corrupt systems (zones) and to eliminate the culture of cynicism and change the administration.

Also, corruption means abusive use of force for private purpose. Although there is a tendency to consider corruption guilt of the public administration, we can find it in the private sector as well. The private sector is mostly involved in corrupting public administration. When the state's financial resources are small, then we can justify the measures taken to severely limit transfers and allocations from the general consolidated budget to local administrations.

Every year, reports on the level of corruption are published and among them we find the report of Transparency International, a non-governmental organisation. This report shows that Romania is ranked 66<sup>th</sup> by the Corruption Perception Index (CPI) in 2012, after Rwanda, Namibia, Ghana, Kuwait as well as EU member states such as Poland, ranked 41<sup>st</sup> (score 58), Hungary, ranked 46<sup>th</sup> (score 55), and Croatia, ranked 62<sup>nd</sup> (score 46). The full list is given in Annex 1 (2012 CPI). Transparency International ranks countries on a scale from 0, the highest CPI, to 100, the lowest CPI.

In its most serious form, corruption destroys lives and communities, undermines countries and institutions, and stirs up popular rage, which further shatters societies.

#### **4. Some important lines of action against corruption**

As important areas where we can find corruption and hidden economy – but not the only ones – we consider the setting and collection of duties and taxes, granting of authorisations, approvals and licences, expenditure on public procurement.

##### *Setting and collection of taxes and duties*

In my opinion, measures should be taken to change the law concerning the setting and collection of local taxes and duties, that is simplifying the way they are set, and the transition from a complicated system in which someone almost needs direct help from the tax officer to determine the tax correctly.

The simplification of the setting of local taxes and duties diminishes the risk of interaction between the tax-payer and the public officer, which very often results in an “aid” provided by the officer not quite freely.

This change in the setting of local taxes and duties should result in simplicity and easiness for determining local taxes and duties and the assistance should be minimum, and when the latter is very necessary it should be provided by



phone, or in an electronic form so that the tax-payer and the officer should not interact directly. Also, the “honesty” of the tax-payer should be involved by promoting a self-declarative system usually based on the market price, and the taxation should be made in percentage of the declared value of property under the sanction that the town hall might buy that property at the declared price when the declared value is unbelievable low.

The tax-payer’s inappropriate conduct should be taxed more severely, going up to loss of property.

Similarly, in the case of the collection of local taxes and duties, changes should be made so that the collection should be made by banks.

Such a measure might result in a spectacular rise in incomes to the local budget along with a diminution in the national budgetary effort which would also make local administration more responsible.

#### *Authorisations, endorsements, approvals and licences*

The simplification of regulations, the elimination of authorizations for special cases could prevent bribing.

A simple book could be adopted for all applicants for authorizations and licences and the applicants should address to a registration office and not to persons directly involved in granting documents. Every application would enter a system to be monitored both by the applicant and by the management. Such a system could be beneficial because it would prevent a direct contact with officers that could be “influenced” to speed up or to slow down the case, thus eliminating a reason to bribe. This approach to the problem could also provide valuable information for assessing properly the performance of offices and of each officer as well. To speed up the granting of authorisations, endorsements, approvals and licences, a document – citizen’s handbook or guidelines – could be produced and published for detailing all procedures; this could help the citizens get familiar with rules and prevent officer to take advantage of people’s ignorance. Moreover, experts could be attracted from outside the administration to do better and faster work in justified cases.

#### *Public procurement*

If I would have to say which of the three domains is more corrupt, the public procurement certainly is the first, since it is the place where the largest amounts are used. The contracting department “where the money is”, if we have to

invoke William “Willie” Sutton<sup>11</sup>, who, when referring to the reason for bank robbery, places public procurement before other domains where corruption is a permanent threat.

Among the main types of arrangements, we find the agreements between bidders which leads to cost or price rise for local administration, commissions offered by companies to “dodge” tender results, bribes to officials who determine the conduct of the winner (exaggerated extension of the terms of completion, no penalties for inappropriate fulfilment of contract obligations, etc.), which allow for underbidding, followed by additional expenditures and changes in contract specifications. Generally, public procurement contracts cost much money and often involve well-known and very powerful people both from the administration and from outside. The corruption caused by all above-mentioned is quite dangerous as regards public trust and the distribution of wealth and power.

To diminish corruption in the public procurement field, we can find solutions but only if there is a clear commitment of the leaders to stop the “naturalized” way of doing things and “oiling the system”. Also, the leaders should be aware of the cost of any anticorruption measure.

In my opinion, two aspects should be considered because of their importance: the first one should *ensure decent wages for public servants, promotion based on merits and a well defined career, i.e. a well defined system of promotion in career*. The second one refers to the *collaboration with agencies of investigation and law enforcement from outside the local administration* (prosecutor’s office, control and audit institutions, ONGs, the press).

Some of the measures I identify as producing good results regards corruption diminution in public procurement are the following:

- *Promotion of competitive conditions whenever possible*. To stimulate competition in fields that might be monopolies other than the natural ones. Both in theory and in economic practice we welcome the fact that several qualified suppliers eager to work will compete to win the contract, which will be granted to the most efficient one, in this way reducing the cost of procurement and providing the maximum utility for the public.

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<sup>11</sup> William “Willie” Sutton (June 30, 1901 – November 2, 1980) was a prolific American bank robber. During his forty-year criminal career he stole an estimated \$ 2 million, and eventually spent more than half of his adult life in prison. For his talent at executing robberies in disguises, he gained two nicknames, “Willie the Actor” and “Slick Willie”. Sutton is known, albeit apocryphally, for the urban legend that he said that he robbed banks “because that’s where the money is”.

- *Simplification and clarification of rules and regulations.* The main reason is that the corruption in expansion makes us enforce new rules and regulations aiming first at preventing arbitrary decision-making, at promoting free access of all participants to market, at protecting equity and effectiveness by standardisation of procedures, so that they should be transparent, and the violation of the rules should be easily detectable.

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## Annex 1

**The 2012 Corruption Perception Index by  
Transparency International**

<b>Country Rank</b>	<b>Country / Territory</b>	<b>CPI 2012 Score</b>
1	Denmark	90
1	Finland	90
1	New Zealand	90
4	Sweden	88
5	Singapore	87
6	Switzerland	86
7	Australia	85
7	Norway	85
9	Canada	84
9	Netherlands	84
11	Iceland	82
12	Luxembourg	80
13	Germany	79
14	Hong Kong	77
15	Barbados	76
16	Belgium	75
17	Japan	74
17	United Kingdom	74
19	United States	73
20	Chile	72
20	Uruguay	72
...	...	...
41	Dominica	58
41	Poland	58
50	Rwanda	53
..	...	...
58	Namibia	48
...	...	...
64	Ghana	45
...	...	...
66	Kuwait	44
66	Romania	44
66	Saudi Arabia	44
...	...	...
165	Chad	19

165	Haiti	19
165	Venezuela	19
169	Iraq	18
170	Turkmenistan	17
170	Uzbekistan	17
172	Myanmar	15
173	Sudan	13
174	Afghanistan	8
174	Korea (North)	8
174	Somalia	8

## **THE FISCAL-BUDGETARY POLICY MIX AND GENERAL EQUILIBRIUM IN THE CONTEXT OF THE ECONOMIC-FINANCIAL CRISIS**

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### **Abstract:**

*The existence of fiscal theories in economic activity was perceived differently from one historical stage to another, from one state to another or from one community to another, depending on the economic and social development of each of them. Therefore, the development of fiscal policy theories has contributed to the growth and development of the economic potential of the society in general and to meet the social needs of the population in particular.*

*The research theme "The fiscal-budgetary policy mix and general equilibrium in the context of the economic-financial crisis" encompasses a wide range of the fiscal domain, with implications for social stability and economic development that allows to identify key elements, among which saving, investment and the existence of budget revenues and expenditures, which analyzed together will participate to the "general equilibrium" model in the work of J. M. Keynes and his P. A. Samuelson.*

**Keywords:** *savings, investments, demand, fiscal policy*

### **1. Introduction**

Major changes in the global economic system were mainly due to the economic development of states. Thus, over time, state's right to collect taxes from persons inside its territory or outside it, was a concern, a topic not only for the legal doctrine and the constitutionalists, but for the economic doctrine also.

Under these circumstances, taxes became the main financial resource of the state, and therefore any change in their content and structure could become a factor

disrupting state activity, which would generate a possible imbalance in the economy.

In this context, there is the concern of specialists to find solutions to maintain overall macroeconomic balance, avoiding the worldwide economic and financial crises and increasing the economic development pace in some countries with globalized economies.

## **2. General equilibrium theory in the works of J. M. Keynes**

In different studies, many meanings have been awarded to the concept of fiscal policy, but in this paper the use of fiscal policy is analyzed in terms of the general equilibrium between goods / services consumed and financial flows, namely as an instrument of state intervention for macroeconomic stabilization purposes, depending on the needs to balance market supply and demand.

Equilibrium theory in the Keynesian approach uses the simple model of a closed economy without government fiscal activity, with aggregate demand having a central role and using investment and real savings as variables.

To explain and interpret his theories, J. M. Keynes takes a different approach than his predecessors, arguing: "Our criticism against the accepted classical economic theory is not so much to find cracks in the logic of its analysis as to reveal that the premises from which it tacitly starts are met rarely or never,"<sup>12</sup> given that all the research conducted by Keynes corresponds to the economic reality of that period.

However, in Keynes's approach, the use of discretionary fiscal policy will directly affect current income when the market faces price rigidity, overcapacity and the existence of liquidity constraints for economic entities and households, and the impact of changing discretionary fiscal measures and the degree of crowding out being described in the IS-LM model.

Similar to the supply multiplier following budget expenditure, due to taxation (taxes and fees) an income multiplier phenomenon takes place. In this context, state intervention is to control the "size" of fiscal instruments in order to achieve GDP stability.

To build the fiscal multiplier model, its assumptions are taxation, tax rate and government spending, and the new level of income (derived from levies) is given by:

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<sup>12</sup> Keynes J. M., „*Teoria generala a folosirii mainii de lucru, a dobanzii si a banilor*”, Editura Stiintifica, Bucuresti, 1970, pg. 66;



$$V = Qxi \quad (1)$$

where:

V –public income;

Q – production

i – tax.

Based on the initial relationship, using fiscal instruments the equilibrium equation for production can be determined, as follows:

$$GDP = \frac{1}{1 - c(1-t) + i_i} \times \left( \underbrace{Cpa - c \times V}_{\text{}} + c \times Tr + Ch_{bug} + \alpha_E + E \right) \quad (2)$$

The multiplier effect of the initial state intervention<sup>13</sup>

where:

GDP - Gross Domestic Product;

Cpa - autonomous private consumption;

c - marginal propensity to consume;

V - fiscal income;

Tr - transfers to households;

$\alpha_E$  - volume of household saving;<sup>14</sup>

Ch<sub>bug</sub> - budget expenditure;

E - export.

be compatible with equilibrium, since any other level will lead to a disparity between supply's global price for overall production and demand's global price."<sup>15</sup>

Therefore, the general equilibrium condition is the equality of "savings buyers - consumers make and the investment made by buyers - investors."<sup>16</sup>

Keynes's general theory on general equilibrium is based on the rejection of the classical paradigm that confirms the existence of "an automatic From the point of view of a policy of state's intervention in the economy, policy promoted and

<sup>13</sup> This remains the same regardless of changes in the tax revenue from fixed amount taxation, transfers to the population or the amount of public spending.

<sup>14</sup> "According to Keynesian theory, investment must equal population savings and having a productive purpose, their approach is specific to manufacturing companies", Duca A., „Miraculosul triumphi al impozitelor”, Editura ASE, Bucuresti, 2007, pg. 227;

<sup>15</sup> Keynes J.M., „Teoria generala a folosirii mainii de lucru, a dobanzii si a banilor”, Editura Stiintifica, Bucuresti 1970, p. 63-64;

<sup>16</sup> Popescu Gh., „Evolutia gandirii economice”- ed. III, Editura Academiei Romane - Bucuresti, Editura Cartimpex – Cluj, 2004, p. 644;

supported by Keynes, "general equilibrium" can be obtained using *fiscal-budgetary policy instruments*, namely:

- *Taxes*, modifying them reduces or increases productive economic activity;
- *Government expenditure* are used to purchase public goods, it influences directly the aggregate demand curve;
- *Budget deficit*.

Using these fiscal and budgetary instruments directly affects unemployment, savings and investments, three elements on which the entire Keynesian analysis was concentrated.

When he correlated them Keynes said that "savings and investments are made by different population groups and are not necessarily automatic and in equilibrium-state"<sup>17</sup> and therefore only "when the marginal propensity to consume and the size of investment are given, only one level of labor force employment will mechanism" to ensure full employment and economic activity recovery after each stage of economic downturn.

According to the opinion of Darrel Cohen and Glenn Follette, discussed in "*The automatic fiscal stabilizer: quietly doing their thing*" Keynes' model of automatic stabilizers leaves from the uncertainty of future income from work correlated to the impossibility of the state to pay a comprehensive insurance for the private and financial tools that help maintain the general equilibrium.

Interventionist state policy, achieved through tax has as a hypothesis the idea that changing the income tax by setting a higher tax rate will cause a change in labor income, which will generate a downward trend in savings or reduction of current consumption.

Arguing against this paradigm, Keynes analyzes employment concluding that in the short term it is determined by the level of production, which in turn depends on the amount of individual consumption expenditure and of investment, i.e. actual demand. Therefore the actual demand is "determinant of employment and income, unemployment represents only a consequence of total aggregate demand."<sup>18</sup>

His new model of analysis is developed based on two principles:

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<sup>17</sup> Popescu Gh., „*Evolutia gandirii economice*”- ed. III, Editura Academiei Romane - Bucuresti, Editura Cartimpex – Cluj, 2004, p. 635;

<sup>18</sup> Finkenstein J., Timm A., „*Economists and society . The development of economic thought from Aquinas to keynes*”, Editura Haper & Row, USA, 1973, p. 290;

1. the balance between savings and investment depends on income evolution and variation;

2. savings have investment as the active element.

In this context it is necessary to address consumption, savings and investment as a "circular flow" of income and expenditure for the whole economy.

The income paid by firms (wages, rents, interest, profits)<sup>19</sup> flow to the consumers as labor and property income; then households spend these revenues buying from producers their goods and services shown as market supply and therefore, at that moment, firms' revenue is population's expenditure, and in the same time a part of this amount goes to the state as taxes, which will return them, but not entirely, to consumers (households and firms) in the form of transfers. But sales to consumers can not be equivalent to the payments they make to the population as wages, rents, interest, etc., because the economic behavior of consumers makes them to save a portion of their disposable income. Therefore, the savings can be found out of the circular flow.

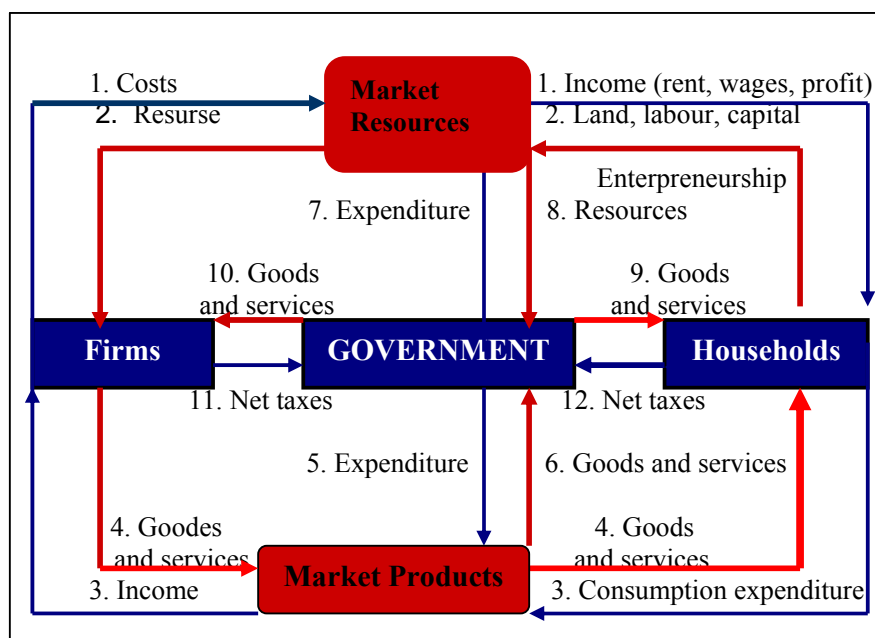
To understand its particular relevance in the context of the general equilibrium (Economic and Financial) McConnell and Campbell in "Microeconomics: Principles, Problems and Policies" represent the income circular flow as the diagram in Figure 1.

Analyzing, economic - financial flows belonging to the Keynesian doctrine, the conclusion is drawn that equilibrium is achieved when the sum of consumption demand, investment and public spending equals production, while maintaining a certain price level, and if "savings vary from investment, global supply and global demand are not equal, firms revenues are not equal to the costs of population and household income is not equal to the income of companies," the economy is in a state of imbalance.

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<sup>19</sup> Emilia Vasile, Daniela Mitran, Popescu Marin *Logistics Framework In Mass Customization Manufacturing*, Revista Metalurgia International, nr.3/2009, Cotata ISI, pg. 58-61, ISSN 1582-2214

Figure 1. Keynesian income circular flow diagram



**Source:** McConnell, Campbell R., „*Microeconomics:priciples, problems and policies*”, Published by McGraw- Hill, New York, 2012, pg. 337;

Looking from another angle, the British economist believes that national income, consisting of two components: consumption and investment, when demand is in excess relative to potential production, determines an inflationary phenomenon, otherwise, if they remain under economy's possibility of production will lead to the emergence of unemployment, moment when the national economy is not in equilibrium, imbalance that can be corrected through government action.

This is achieved through fiscal and budgetary policy instruments, as it follows:

1. *Changing tax rates:*

- increasing taxes on personal income, leads to a reduced consumer spending, and also to a decrease in total demand;
- reducing taxes on personal income, generate increased consumer spending and aggregate demand respectively.

2. *Increased government spending* for procurement of public goods.

However, these tools must be used rationally and prudently according to the phase of the economic cycle in order to mitigate the adverse effects of economic recessions, economic crises and economic booms.

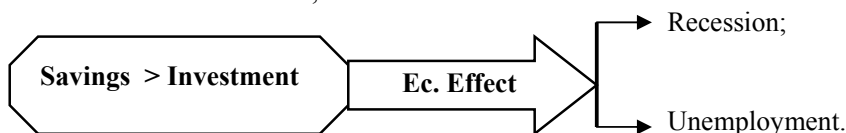
### 3. General equilibrium theory in P. A. Samuelson's approach

In general equilibrium theory, Samuelson continues Keynes' analysis based on two components: savings and investments.

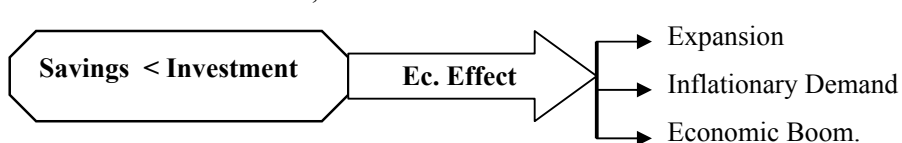
According to P. A. Samuelson's equilibrium theory "the most important thing about savings and investment - is that in our industrial society the two operations are largely determined by different individuals and for different reasons."<sup>20</sup> Thus he makes the distinction between savings – as a result of households' activity and of business investment, which is in most situations the work done the economic entity, "based on the rational calculation of the decision-making process."<sup>21</sup>

As a result of Nobel laureate's research, he notes that economic life can face two situations for the relationship between savings and investment, as it follows:

1. Situation when,



2. Situation when,



The accelerator principle considered by P. A. Samuelson as a powerful economic stability factor, can be used during the period of major increases or decreases in sales to counter amplifying their fluctuations. However, using the accelerator leads to increased net investment in times of economic boom, but incites equal disinvestment in times of crisis.

<sup>20</sup> Samuelson P. A., Nordhaus W. D., „Economics”, 15th edition, McGraw-Hill, USA, 1995, pg 299;

<sup>21</sup> Popescu Gh., „Evolutia gandirii economice”- editia a III-a, Editura Academiei Romane - Bucuresti, Editura Cartimpex – Cluj, 2004, pg. 729;

Therefore, no matter in which of the two situations would be the economic society, government intervention is needed to correct the imbalance and restore a steady state. To this end, the measures proposed by Samuelson relate to the use of fiscal and budgetary policy instruments. In other words, "state interference is necessary for, on one hand, to ensure the amount of savings required for "full use", and on the other hand, to widen the "investment opportunities" until full employment. Tax decisions and budget expenditure may in Samuelson's opinion "alter the balance of national income".<sup>22</sup>

The privileged role of fiscal policy as stabilization policy consists in "setting out the resources, the methods of levy and the income of public funds"<sup>23</sup> budget policy with the task "hierarchical sizing and public expenditure through actions and instruments."<sup>24</sup>

Samuelson believes the measure to reduce taxes will generate a lower tax revenue and lead to the fractionation of national income, with consequent increases in personal consumption; budget revenues from taxation will be reduced while reducing the national income and will record an upward trend if it increases. This is the multiplier effect on national income of public spending.

Based on these correlations, steady state is achieved when public expenditure is equal to public revenue from taxes and fees to the state budget.

Samuelson's evolving view on saving is reflected in the analysis of government budget deficits. In countercyclical terms, government budget must remain balanced throughout the business cycle. Thus, according to this reasoning, deficits are justified; though offering few clues about when and how could occur surpluses that would lead to budget rebalancing.

P. A. Samuelson's approach in his work of public debt shows that associated expenditure - at the expense of the budget deficit, was not a major problem, but he concludes, after the formulation of this hypothesis, that a higher value of public debt can be a clear impediment to long-term economic growth.

The results of its research over time helped the American economist "to define the three major economic functions of the budget,"<sup>25</sup> namely:

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<sup>22</sup> Ibidem, pg. 730;

<sup>23</sup> Vacarel I., „*Politici economice si financiare de ieri si de azi*”, Editura Economica, Bucuresti, 1996, pg. 708;

<sup>24</sup> idem

<sup>25</sup> Samuelson P. A., Nordhaus W. D., „*Economie politica*”, Editura Teora, Bucuresti, 2000, pg. 743;

1. "sharing the national product between consumption and investment, public and private;
2. direct spending and indirect tax incentives, have an impact on labor and capital inputs and outputs to and from various sectors of the economy;
3. fiscal policy or state budget plays an important role in reaching the main macroeconomic objectives."<sup>26</sup>

But these formulations of the budget functions do not represent the peak of P. A. Samuelson's research on "general equilibrium," he is known for elaborating some theories and models of economic dynamics, arguing that only if when using a dynamic analysis can be highlighted the laws establishing economic equilibrium.

#### **4. Conclusions**

Analyzing the fiscal theories formulated by ideologists is observed that economic theories have been in a continuous process of adjustment to the economic and social development.

The development of basic components such as savings and investments highlighted the role of demand in a market economy. Theoretically, aggregate demand problems are alleviated with the development of dynamics analysis of national and global economies. Thus, the important directions of Keynesian growth and general equilibrium theory concern the long term role of fiscal policy and the implications of government's policy of increased public investment.

In this context, I appreciate that public investments have effects not only on aggregate demand but on aggregate supply through: changing the rate of technological change, the interaction of financial factors – the financial system reacts differently to changes in economic cycles, and last but not least the interaction between the growth and the distribution of government revenue.

Based on these findings I believe that Keynesian models have opened a new chapter for future research in terms of government policy, including tax policy "especially in regard to the expansion of government investment, financial regulation, policies to change the income distribution."<sup>27</sup>

In terms of Samuelson's research contribution, notably the automatic fiscal stabilizers, it can be said that this mechanism allows civil, economic and political

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<sup>26</sup> Duca A., „*Miraculosul triumphi al impozitelor*”, Editura ASE, Bucuresti, 2007, pg. 72

<sup>27</sup> Arestis P., Sawyer, „*21st Century Keynesian Economics*”, International Papers in Political Economics, Library of Congress Cataloging-in-Publication Data 21st century Keynesian economics / edited by Philip Arestis and Malcolm Sawyer. Printed and bound in Great Britain by CPI Antony Rowe, Chippenham and Eastbourne, 2010, pg. 75-76;

society to change its decisions to reduce negative externalities, depending on the economic development in different periods. Therefore, automatic stabilizers can increase the welfare of the state, reduce the tax burden, create flexible markets able to react positively to potential economic shocks.

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## **OVERVIEW OF DEMOGRAPHIC AGING, ROMANIA IN THE EUROPEAN CONTEXT**

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### **Abstract:**

*Unprecedented demographic changes announced in the twentieth century and continues to rise in this century, are about to change profoundly the world. Extending life expectancy and falling birth rates are about to undertake major structural changes in all human societies - such as the historical phenomenon of inversion in the proportion of young people and older people. Aging her profound and lasting consequences for all countries is a phenomenon of great importance and also a challenge still inexperienced.*

*Underlying global population ageing is a process known as the "demographic transition" in which mortality and then fertility decline from higher to lower levels. Decreasing fertility along with lengthening life expectancy has reshaped the age structure of the population in most regions of the planet by shifting relative weight from younger to older groups. The role of international migration in changing age distributions has been far less important than that of fertility and mortality.*

*This phenomenon shows that: population ageing is unprecedented, without parallel in human history and the twenty-first century will witness even more rapid ageing than did the century just past; population ageing is pervasive, a global phenomenon affecting every man, woman and child but countries are at very different stages of the process, and the pace of change differs greatly; countries that started the process later will have less time to adjust; population ageing is enduring: we will not return to the young populations that our ancestors knew; population ageing has profound implications for many facets of human life.*

**Keywords:** Population ageing; Demographic changes; Life expectancy.

**JEL clasification:** J10, J11, J17, J18, J24, J26

### **Introduction:**

Countries with a favorable age structure-those with a large proportion of working-age adults and relatively few dependents-ares generally more peaceful and democratic, allowing governments to better meet the needs of their people. An adverse age structure is more challenging to governments, particularly when

national resources are insufficient to improve economic and social welfare. Countries that progress along the demographic transition-changing from high death rates and birthrates to smaller families and longer lives-generally demonstrate more favorable age structures.

Population distribution refers to the ways in which the population of a given country is distributed into certain categories such as age, sex, occupation and geographical distribution.

#### **Age distribution**

This is the break down of the population of a country into age groups. Age distribution in economics is very important as it shows the usefulness of population and the supply of labor required in different sectors of the economy. The population of a country can be divided into the following three age groups. These are; 0-14 years, 15-59 years and 60 years and above.

<b>World</b>	<b>1960</b>	<b>1980</b>	<b>2000</b>	<b>2020</b>	<b>2050</b>
< 14 age	36.84	35.14	30.04	25.11	20.19
15 - 59 age	55.0	56.3	60.0	61.3	58.1
> 60 age	8.14	8.61	10.01	13.61	21.68
<b>EUROPE</b>					
< 14 age	26.71	22.18	17.53	15.02	15.02
15 - 59 age	60.2	61.8	62.2	59.1	50.5
> 60 age	13.1	16.04	20.28	25.87	34.5
<b>ROMANIA</b>					
< 14 age	28.18	26.67	18.29	14.01	13.38
15 - 59 age	61.2	60.1	62.6	62.4	49.1
> 60 age	10.6	13.26	19.07	23.56	37.57

Source: ONU - World Population Prospects 2011

From the above classification, the population within the age bracket 0-14 years includes the infants, children, pupils in nursery, primary, secondary and tertiary institutions. This age group is called dependent population because they are not economically productive as they cannot be employed in the labor market. They will need to depend on the other groups for their needs. If the population of this age group is very high, it has lots of economic implications such as putting more pressure on the working class, low savings, provision of schools and other children goods and services.

The age group 15-59 years is popularly referred to as the active population or working population or labor force. This is the economic age bracket that is

involved in productive activities or employment. Because they are the working population and depend on themselves for substance, they are collectively called independent population. If the number of people in this group is high, there will be higher supply of labor and higher standard of living.

The age group 60 years and above is the old age, just like the children (0-17 years), they do not involve themselves in productive activities hence they are also classified as dependent population. In summary, the age distribution of any given population can be grouped as follows: 0-17 years are children (dependent population) 18-60 years is adult (working population or labor force) 60 years and above: Old age (dependent populations).

#### Importance of Age distribution of Population

1. Determination of tax: With the knowledge of age distribution of the population, the expected tax can be determined based on the number of people in the working group of labor force.

2. Knowledge of dependent: The number of the dependents (0-17 years and 60 years and above) can be determined easily through age distribution in a population.

3. Size of labor force: With a good age distribution, the number of people working can easily be determined.

4. Determination of government budget: The age structure of a population will assist government to draw up its budget. If for example the population of the children (0-17 years) is very high, it means the government will need to vote a huge amount of money to provide goods and services required by this age group than for other groups.

5. Production pattern: the age distribution of the population will help the manufacturer to determine the pattern of production to meet the needs of a particular age group.

6. It determines the nature of market: The understanding of the age structure of a population will help to determine the nature of market, eg, a population with high number of children will create more market for children goods and services.

7. It determines the birth and death rates: the age structure of a population will determine the rate of birth and death, when the population of old people is higher than that of other groups, it means the death rate is going to be higher.

8. It determines the standard of living: The age structure of a given population will reveal the income per capital and standard of living. While high

dependency population reduces income per capital and standard of living, high working population or labor force increases income per capital and standard of living.

### **Age Structure Types**

Population age structures yield insights into many of the political, economic and security challenges that countries face, now and in the future. For example, when a large proportion of a country's population is passing through one of life's dependent stages, such as childhood or old age, society's resources are likely to be stretched and put under greater stress.

PAI has classified current and past national populations into one of four major age structure categories: *very young*, *youthful*, *transitional* and *mature*. These four profiles represent progressive steps along the path of the demographic transition-changing from high death and birthrates, large families and short life expectancy to lower death rates and birthrates, smaller families and longer life expectancy. In the future, if fertility rates continue to fall in countries with a mature structure, a fifth type may emerge before 2025: *aged* countries.

#### **Very Young**

In countries with a very young age structure, two-thirds or more of the population is typically comprised of young people under age 30, and only three to six percent of the population is above age 60. In 2005, there were 62 countries of this type, including nearly all of sub-Saharan Africa.

#### **Youthful**

Countries with a youthful age structure are beginning to experience progress along the demographic transition. Growth among their youngest age groups (from birth through 29 years) is declining. In 2005, 27 countries fit this category, including almost all in Central and South Asia, North Africa, and parts of the Middle East.

#### **Transitional**

Although older age groups still represent a very small share of the population in countries with a transitional structure, declining fertility rates result in a more equitable distribution among age groups younger than 40. In 2005, this category included 40 developing countries from various regions.

#### **Mature**

In countries with a mature age structure, the largest age group consists of working-age adults from 30 through 59 years old, comprising 40 to 55 percent of

the population. In 2005, this category included 47 countries across Europe, the former Soviet republics, and East Asia.

Romania is included in this overview facing demographic changes that have medium and long term implications. Population decreased between 1992 and 2005, with a million people and continues to decline steadily. This trend is caused by low fertility (1.3 children per woman, instead of 2.1, which would ensure population replacement) and high external migration (about 2 million Romanian is legally abroad, and the number of emigrants illegally is unknown). At the same time, however, Romania has an average mortality rate and life expectancy increases, resulting in a significant aging population. If present, of the 21.6 million inhabitants, 10.5 million are adults, 5 million - young children and 6 million are elderly, over 50 years the picture will look completely different demographic: retirees will represent more than half of the population, will decrease the number of adults and children, and significant narrowing pyramid base.

Population by age group (Romania and EU-25)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
0-14 years												
UE (25)	18.1	17.9	17.7	17.5	17.3	17	16.8	16.6	16.4	16.2	16	15.8
Romania	20.5	20	19.6	19.3	18.8	18.3	17.7	17	16.4	15.9	15.5	15.4
15-24 years												
UE (25)	13.8	13.6	13.5	13.3	13.2	13.1	13	12.9	12.9	12.8	12.7	12.6
Romania	15.9	15.9	15.9	15.8	15.7	15.6	15.6	15.6	15.6	15.5	15.2	14.9
25-49 years												
UE (25)	36.7	36.8	36.8	36.8	36.7	36.7	36.6	36.6	36.6	36.5	36.4	36.3
Romania	34.9	35.2	35.5	35.7	35.9	36	36.3	36.5	36.8	36.9	37	37
50-64 years												
UE (25)	16.5	16.6	16.8	17	17.2	17.4	17.5	17.7	17.8	18	18.1	18.3
Romania	16.4	16.3	16.1	16.1	16.3	16.5	16.5	16.7	16.8	17	17.4	17.8
65-79 years												
UE (25)	11.4	11.6	11.9	12.1	12.3	12.3	12.4	12.4	12.5	12.6	12.6	12.6
Romania	10.2	10.5	11	11.4	11.6	11.8	12	12.1	12.2	12.3	12.3	12.2
80 years and plus												
UE (25)	3.5	3.5	3.4	3.3	3.3	3.5	3.6	3.8	3.9	4	4.1	4.3
Romania	2.1	2	1.9	1.7	1.8	1.9	2	2.1	2.2	2.4	2.5	2.7

Source: Eurostat, March 2011

Accelerating the aging process, since 2010, is of major importance for the modernization of social policies and social protection. The objective is to ensure social protection prosperity in a society whose population is aging. Maintaining a high level of social protection in these circumstances is a challenge for the authorities.

The need to adapt to an older population and redevelopment involves reviewing policies and strategies. At the same time, reforms will have to consider the transfer of resources to an increasing number of older people do not create major economic or social tensions. On the other hand, older people should not be allowed to fall into poverty. Under one form or another, transfers have always existed and will exist. Two underlying concepts will be considered: intergenerational solidarity, aimed at financing the long term and intergenerational equity that is gaining importance in current discussions. Policy makers responsible for social protection reform should take account of this size, ensuring a satisfactory balance between the opportunities to finance long-term system of solidarity and equity between generations.

The measures that the EU meet evolving challenges of population aging are mainly confined in a general component of which:

- An aging population requires a comprehensive policy approach, covering aspects related to the economy, employment, social problems. Companies must ensure not only provide an appropriate framework for older people, but also economic and social sustainability in an aging world. Policies in this area should take into account the full complexity of interactions between demography and society.

#### Structure of occupation and age categories

Labor markets in European countries have begun to adapt to profound changes the age structure of known active population. However, aging is foreseen for the coming decades may have a magnitude of which has still not be envisaged at present. It is therefore uncertain to predict that companies will face new requirements, the increasing labor market. Policies must be rethought and adapted to new realities so as to be offered this category of employees to acquire new knowledge and to upgrade, make daily powers to be able to reuse them. Following clues that are currently available, older employees, having a level of training and are regularly training and information to be updated with new discoveries and technologies are well able to pay the tasks.

At present, older employees are confronted with attitudes and policies practiced by employers in respect of: remuneration, training and recruitment. Most times these policies aimed at older workers when it comes to staff layoffs. Older employees facing unemployment inside the impossibility of finding a new job, and if ultimately succeed, it must accept most of the times, a salary below the level that I had. Given the foregoing, it can be concluded that domestic policies and attitudes of employers and labor must adapt to new realities that are emerging increasingly stronger labor market. Central Government agencies (mainly governments) must contribute and be involved in promoting educational activities designed to lead to awareness of the aging of the population by all the factors present in the labor market.

Occupational Structure:

1. Primary activities: includes agriculture, hunting, forestry and fishing
2. Secondary activities: includes manufacturing and power,
3. Tertiary activities: includes transport, communication and other services,
4. Quaternary activities: includes more intellectual occupation whose task is to think, research and development ideas.

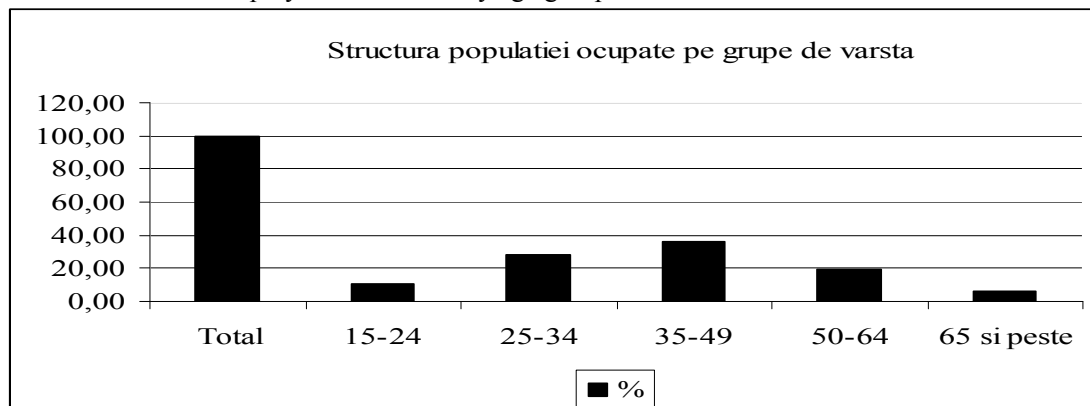
An "attractive" low enough for young people seem to show health and education sectors and social assistance. Although the negative demographic trends make the number of students are becoming less and, consequently, the number of departments and teachers to continuously reduce the fact that a significant proportion of the teaching staff is older or threshold retirement, and young people are increasingly less willing to choose a career in education can lead to a serious shortage of teachers with an appropriate level of professionalism in all regions of the country (especially in rural areas), so the absolute level and specialization. A similar situation is recorded in the health and welfare and the implications on the quality and availability of those services in all areas of the country can be very serious because an aging population in general led to a significant increase in demand for these services.

For industry, developments were different in the case of mining and energy industry and the manufacturing industry. The first two branches, subject to a strict process of restructuring and liquidation of enterprises or the restructuring process is carried out, privatization, modernization and improvement in order to operate in market conditions in most regions recorded a subunit ratio of employment to young oldest. In addition to these factors, however, be taken into account the need to ensure adequate professional skills in sensitive and strategic sectors, which may

explain in part the bigger share of the employed population in age groups with more professional experience.

Areas where the ratio of the employed population and the older woman is biased in favor of the first in all regions are in general service sectors (particularly trade, hotels and restaurants, real estate and other services). Although these sectors is clearly a trend of development and the availability of jobs is expected to increase the attractiveness of lower wages, increased job insecurity, seasonality may result in lower employment of young people, which combined with the aging of the labor existing work in these sectors makes a certain time horizon appear shortage of qualified personnel in a sector or another or a particular region.

Employment structure by age groups in 2010



Source: Anuarul statistic al Romaniei 2011, INS

Developments in the structure of employment by activity, however, are even more dramatic. Thus, regardless of the method, in agriculture, hunting and forestry, electricity, gas and water, education and health and social relationship between groups of population employed "young" and older is less in almost all regions and for almost all the analyzed period. Furthermore, agriculture is also encountered a rather large percentage (even if the slight decrease) of population employed in the age group over 65 years: 16.8% of total employment in 2005 in North-Eastern region, 13.3 % in South-Eastern region, 16.9% in the South region, 18.2% in the South-West (the worst situation in this case), 10.6% in Western region, 13.4% in North-West, 9.1% in the Central region and 8.4% in the Bucharest-Ilfov. Even if the trend of employment in agriculture is a clear decline, low growth and low productivity of the branch, very low level of income



obtainable, fragmentation and low socio-economic development in rural areas will remain as attractive to industry be very low among young people, and the possible migration and emigration among agricultural workers and farmers are still high, leading to worsening problems facing rural and elderly population in its level.

### **Conclusions:**

For the industrialized world, aging is the same explanation: population developed societies tend to have increasingly fewer children. Women postpone pregnancy for the benefit of creating a career, or simply give up the idea of having children. The birth rate is becoming smaller as the generations of women are younger and at the same time, decreases inversely with the level of education.

Unfortunately for Europe, the solutions are limited: the acceptance of immigrants, increasing population (solution increasingly unlikely in conditions of genuine nationalist wave - France, Germany) or gradual loss of influence in the world. But even accepting immigrants is a solution that will lead, in time, all the demographic imbalance conditions, in order to compensate for very low birth rate, Europe should accept a million immigrants per year, which is considered be unacceptable to most Europeans.

However, demographic projections are difficult because it is difficult to predict whether the birth rate will remain constant or increase (which has happened in recent years in France and Romania). Indeed, a higher birth rate, combined with immigration, and can stop the aging European population decline. But for this, we need coherent social policies and more interest and concern of the governments concerned.

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## LABOUR FORCES PARTICIPATION IN THE EUROPEAN ECONOMIC AREA

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### **Abstract:**

*The distribution of employment by activities of the national economy shows that the agriculture, forestry and fishing sector has concentrated 28.6 percent of the total population employed in the economy in 2011, of which 6.3 percent were employees. In this respect Romania is well above the EU average, where the share of labour absorbed by the secondary (industry + construction) and tertiary (services) sector was 95.1 percent. The most recent data obtained from the Household Labour Force Survey reveal the continuation of economy restructuring, which impacts the structure of employed population and unemployment. In the next period, labour market stabilization is expected, in the conditions in which the number of people who got out of the unemployed category as a result of non-renewal of requests to be in the evidence of the NEA is low; an eventual reason for this situation could be these people's inadequate training or their migration to foreign countries or to the informal economy.*

**Keywords:** Labour market, vacancies rate, incidence of long-term unemployment, potential additional labour force.

### **Introduction**

The economic activity objectively involves the labour factor designed to exploit the natural and money resources for its own interest. Labour is traded through the labour market. The balances or imbalances in the labour market can be approached starting from the features of this market and continuing with the internal mechanism of its operation. The study and evaluation of the processes in the labour market as dimensions, structures and trends are important for defining the active employment and social protection policies in their most different aspects. In the transformation phase undergone by Romania under the impact of the

economic crisis, it is important to educate the population in order to make it understand and accept the new processes taking place in the economy and the formation of an appropriate behaviour of companies on employment and the efficient use of the labour force. In Romania, the employment rate of working age population (15-64 years) was 58.5 percent in 2011, 2.52 percentage points below the Central European countries (Czech Republic, Slovakia, Slovenia, Hungary, Poland). With the accelerating restructuring and increase of job insecurity, the labour market has accumulated a large number of social problems. The privatization and restructuring of the Romanian economy have significantly influenced the labour market, causing massive layoffs and the occurrence of the unemployment phenomenon. The involutions in the economy have limited employment opportunities; the active population and the activity and employment rate decreased and unemployment became chronic.

In this respect, this study aims to analyze the occupational structure and measuring the size and development of the employment, unemployment and inactivity phenomena.

### The Dynamic Analysis of the Labour Market

In the labour force, numerous retirements, restructuring of state enterprises and liquidation of inefficient units, the development of parallel economy, the call for other forms of employment (for example, civil agreement), increasing the number of Romanian workers with contracts abroad, the global crisis, as well as the casual and seasonal factors have led, during 2003-2011, to a decrease in the number of persons involved in increasing the gross domestic product.

*Table 1. Evolution of main indicators of human potential in Romania, 2003-2011*

Specification	2003	2004	2005	2006	2007	2008	2009	2010	2011
	- thou persons -								
Population	21773	21711	21658	21610	21565	21529	21499	21462	21414
Economically active population	9914	9957	9851	10042	9994	9945	9924	9965	9868
Employment	9222	9158	9146	9313	9353	9369	9243	9240	9138
ILO unemployed	692	799	704	728	641	575	681	725	730
	- percent -								
Activity rate*	62.4	63.2	62.4	63.7	63.0	62.9	63.1	63.6	63.3
↔ 15-24 years	34.2	36.8	31.9	31.0	30.5	30.4	30.9	31.2	31.1
↔ 25-54 years	78.0	78.3	78.2	79.9	79.0	78.3	78.5	79.5	79.1
↔ 55-64 years	38.8	37.9	40.4	42.8	42.4	44.2	43.9	42.5	41.5
Employment rate*	57.8	57.9	57.7	58.8	58.8	59.0	58.6	58.8	58.5

* Calculated for the working age population (15-64 years) (Source: Statist ical publication “Labour Force in Romania: Employment and unemployment in 2011”, National Institute of Statistics)	↔ 15-24 years	27.9	29.1	25.6	24.5	24.4	24.8	24.5	24.3	23.8
	↔ 25-54 years	73.1	72.9	73.3	74.7	74.6	74.4	73.7	74.4	74.1
	↔ 55-64 years	38.1	36.9	39.4	41.7	41.4	43.1	42.6	41.1	40.0
	ILO unemployment rate*	7.0	8.0	7.2	7.3	6.4	5.8	6.9	7.3	7.4
	↔ 15-24 years	18.5	21.0	19.7	21.0	20.1	18.6	20.8	22.1	23.7
	↔ 25 years and over	5.4	6.2	5.6	5.7	4.9	4.4	5.4	5.8	5.8

The distribution of employment by activities of the national economy shows that the agriculture, forestry and fishing sector has concentrated 28.6 percent of the total population employed in the economy in 2011. In this respect, Romania is well above the EU average, where the share of labour absorbed by the secondary (industry + construction) and tertiary (services) sector was 95.1 percent.

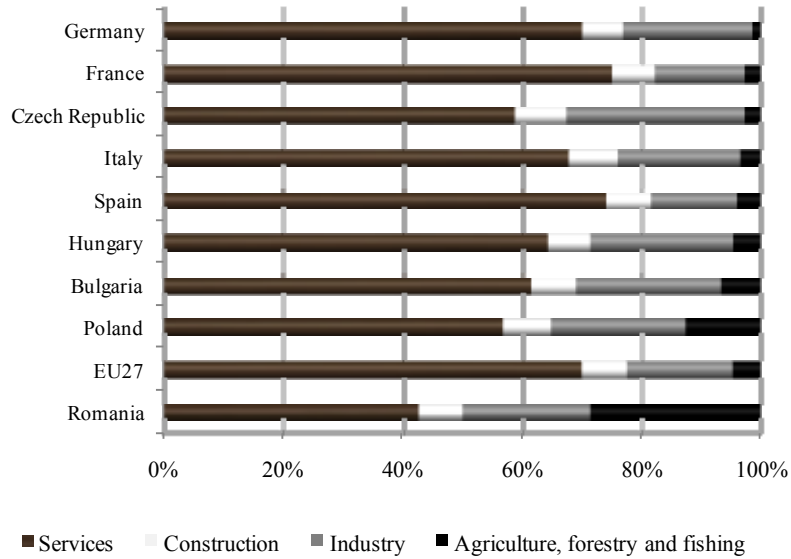
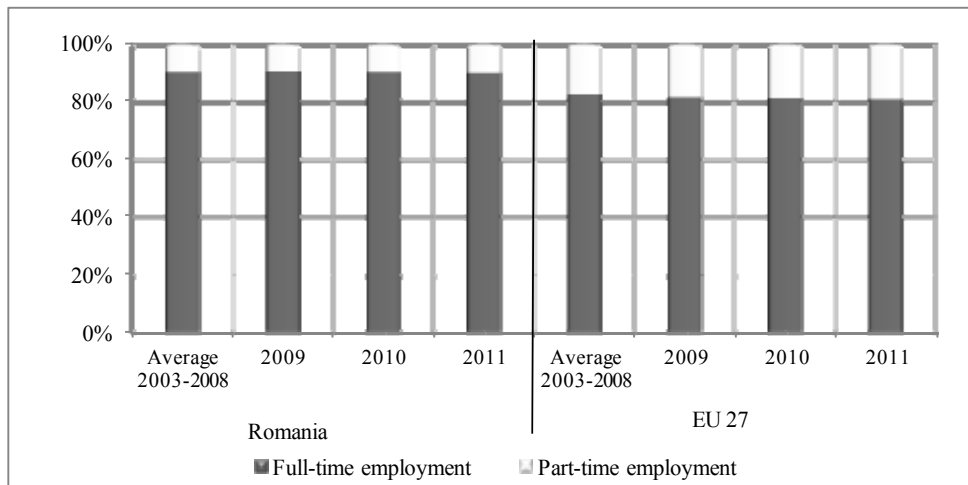
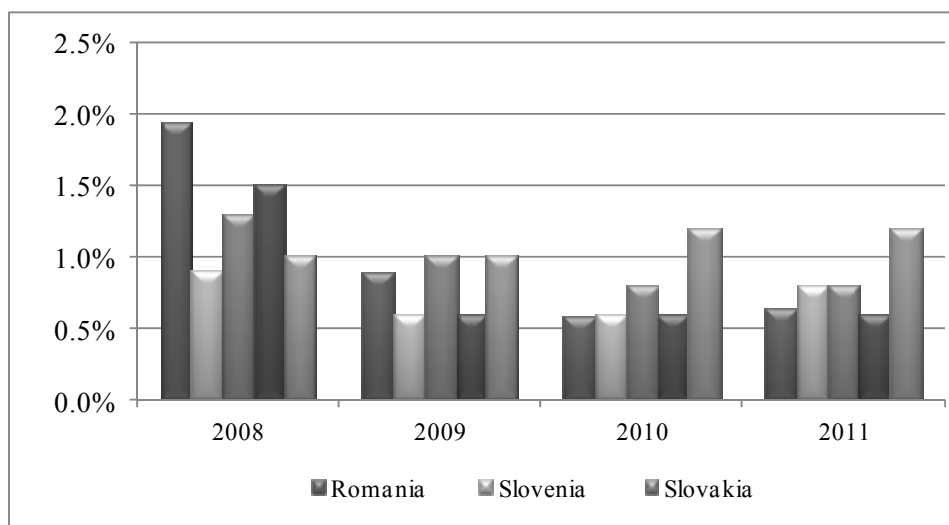


Figure 1. Structure of employment by main activity in the European Union, 2011

Since autumn 2008, keeping the demand services to low levels, the economic contraction and the worsening prospects for companies on the business environment resulted in: (i) the increase of new contracts, with part-time working programme in the total number of hired unemployed, an important factor to prevent the rise of employment decline and the rising of unemployment; (ii) the reduction in the number of new jobs created → in 2011, the vacancy rate by groups of occupations, was of 0.64 percent, by 0.53 percentage points below the last three years.



Source: EUROSTAT

**Figure 2. Employment according to working regime**

Source: EUROSTAT

**Figure 3. Job vacancy rate in selected EU Member States, 2008-2011**

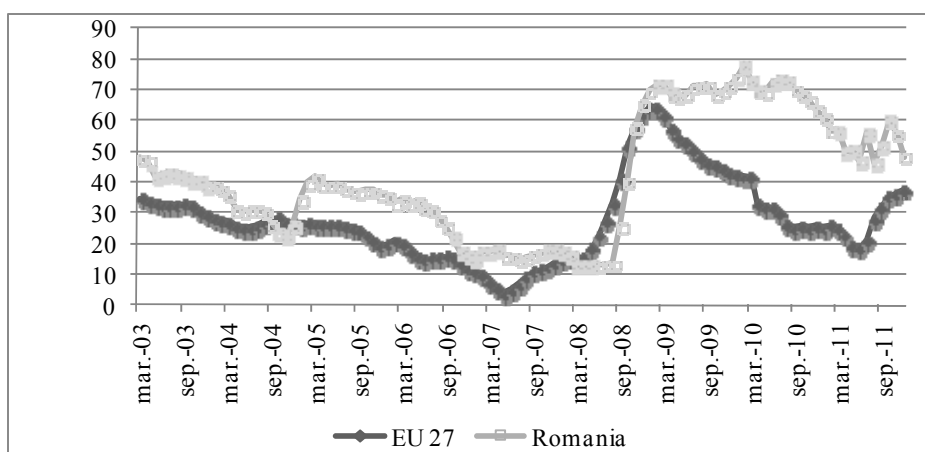
In 2011, the incidence of long-term unemployment among youth (the percentage of 15-24 years unemployed with an unemployment duration of 6 months and older, in the total number of unemployed in same age group) amounted to 63.4 percent. The economic dependency ratio (the number of inactive and unemployed persons per 1000 persons employed) was 1340.2 per thousand.

In 2011, 2.4 percent of the economically active population was underemployed. At the level of EU27, 3.6 percent of the economically active persons were underemployed, the highest weights of this indicator were registered in Ireland (6.4 percent), United Kingdom (5.6 percent), Spain (5.3), while the lowest weights were registered in the Czech Republic (0.5 percent), Bulgaria and Belgium (0.8 percent). In Romania, the additional potential labour force represented 5.0 percent of the economically active population. Among the EU Member States in 2011, the additional potential labour force was highest in Italy (12.1 percent of active population), Bulgaria (9.3 percent) and Latvia (8.4 percent) and lowest in the Czech Republic (1.4 percent) and Greece (1.7 percent).

	Unemployed	Underemployed part-time workers	Persons seeking work but not immediately available	Persons available to work but not seeking
	% of active population			
EU27	9.6	3.6	0.9	3.6
Netherlands	4.4	1.3	0.9	3.3
Germany	5.9	4.7	1.2	1.4
Czech Republic	6.7	0.5	0.3	1.1
Belgium	7.1	0.8	1.4	2.2
Romania	7.4	2.4	0.1	4.9
United Kingdom	8.4	1.8	0.5	11.6
Italy	9.8	4.0	1.5	1.1
France	11.3	0.8	0.8	8.5
Bulgaria	14.6	6.4	0.6	2.0
Ireland	16.2	4.3	0.8	7.6
Latvia	17.7	3.2	0.4	1.3
Greece	21.6	5.3	1.0	4.2
Spain				

Source: EUROSTAT

In Romania, of the 95.3 thousand employees with a temporary working regime 30.95 percent were employed for a period of 7-12 months, citing as the main reason the impossibility of finding a permanent job.



Source: EUROSTAT

Figure 4. Unemployment expectations over the next 12 months



Since October 2008, people's expectations on the rise of unemployment in relation to the following 12 months were enrolled on a deep slope upward, significantly above the European average.

### **Conclusion**

At the level of the National Agency for Employment there is information on the increase of the number of employed people, undocumented, based on the increased uncertainty regarding the volume of new orders. Taking into account the competition from people who, although employed, are looking for a safer job, we can say with certainty that a favourable framework has been created for the reduction in total labour costs for both its components - direct (salary) and indirect (non-salary) – with an effect of improving the inflationary pressures from consumer demand.

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## **ROMANIA'S INDUSTRIAL POLICY TOWARDS THE 2020 STRATEGY<sup>28</sup> CASE STUDY – MECHATRONICS**

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***Abstract:***

*Within the 2020 Strategy, the European Commission launched in 2010 a new industrial policy strategy that outlined the actions needed in order to strengthen Europe's competitiveness and attractiveness, as a place for investment and production, including the commitment to monitor regularly the implementation of these policies.*

*One should note that the current industrial policy is very different from what the Commission proposed in 2007, when the crisis had not yet been felt [COM. no.374/2007}. Compared with the industrial policy in 2007, current programs have been adapted to meet the realities trying to keep the overall objectives of the development strategy of the Lisbon Agenda.*

*In 2012, the Commission notes that in the case of Romania [COM. no.582], it "specializes in sectors that require low innovation and education", and that on national level there is a "chronic lack of investments" in innovation and R&D; this is due to lack of national strategy, without which there is no coordination and integration of "industrial and innovation policies", furthermore the cooperation between responsible institutions is very low.*

*Given the current state of affairs in Romania, our work aims to draw attention to the opportunities represented by the interdisciplinary field of Mechatronics, based on experience and tradition in our country.*

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<sup>28</sup> This paper is based on research conducted under the Project INOVCLUSTER II, Coordinator: Institute of Economic Forecasting, 2011-2012

*To this end, the authors present some of the results and conclusions of a foresight exercise conducted on this field. Conclusions express, on a smaller scale, all the inconveniences of the Romanian industry, but also emphasize the positive outlook of this field in full ascent.*

**Key words:** industrial policy, clusters, foresight exercises, Strategy 2020

EU industrial policy is aimed at increasing competitiveness as a basis for achieving several goals: high standard of living, low unemployment, accelerated adapting to structural changes, encouraging an environment favorable to initiative, enterprise development and industrial cooperation across the Union, better exploitation of the industrial potential of policies for innovation and development of research and technologies. Within the 2020 Strategy, the European Commission launched in 2010 a new industrial policy strategy that outlined the actions needed in order to strengthen Europe's competitiveness and attractiveness, as a place for investment and production, including the commitment to monitor regularly the implementation of these policies.

Commissions Communications "An Integrated Industrial Policy for the Globalization Era" [COM 614/2010] and the "State of the Innovation Union" [COM 849/2011] are flagships of the new European strategy, where the role of clusters in developing industry becomes more evident. In addition to their communication strategy, we have another Communication "A Stronger European Industry for Growth and Economic Recovery. Industrial Policy Communication Update" [COM 582/2012] which sets out the Commission's approach and actions to be undertaken in order to achieve the objectives set out in previous communications. This is accompanied also by "European Competitiveness Report – Reaping the Benefits of Globalization" [SWD 299/2012]. One aspect that should be noted is that the current industrial policy is very different from what the Commission proposed in 2007, when the crisis had not yet been felt (COM. no.374/2007). Compared with the industrial policy in 2007, current programs have been adapted to meet the realities trying to keep the overall objectives of the development strategy of the Lisbon Agenda. In this regard, it is expressly stated that Europe needs a strong industry, competitive and innovative clusters and networks based on clusters.

In 2012, the Commission notes that in the case of Romania [COM. no.582], it "specializes in sectors that require low innovation and education", and that on national level there is a "chronic lack of investments" in innovation and R&D; this

is due to lack of national strategy, without which there is no coordination and integration of “industrial and innovation policies”, furthermore the cooperation between responsible institutions is very low. The Communication concludes that “in the long term, the challenge will be to ensure a paradigm shift away from unskilled labor and energy intensive sectors towards more smart, low-carbon and resource-efficient activities. Upgrading productive capacities and processes, investing in environmentally friendly, eco-efficient technologies, increasing the innovative potential of enterprises, and upgrading labor force skills and improving vocational and higher education and training will be essential for the future competitiveness of the Romanian industry”

Industrial policy in Romania was in the shadow of confusion, for a long period after 1990, between the desire to promote certain priority industries (often ad-hoc criteria) and trends of interventionism in the economy under the pressure of certain interested groups. Along with the defining of the first economic development strategy (for medium term, in 2000) – under the context of initiated reforms due to the start of the negotiations for accession in the European Union – one can speak for the first time, in post-revolutionary economic history, about that shaping of policy for industry, in Romania, and even more, about a more systematic and consistent approach to policies related to industry, in general. In Romania, the industrial policy related to stimulation of growth for potential innovative enterprises, especially for small and medium enterprises, along with improving technology transfers and business support infrastructure (business incubators, technology transfer centers, industrial parks, clusters, etc.), can be found in a series of programmatic documents, as follows:

- National Reform Program, 2011-2013 (PNR);
- Regional Development Plans, between 2007-2013;
- National Strategic Reference Framework, 2007-2013 (CSNR);
- National Competitiveness Strategy of Romania, 2012-2020;
- National Strategy for Research, Development and Innovation, 2007- 2013 (SNCDI);
- Government Strategy for the Development of SMEs, 2009-2013;
- Government Strategy for Improving Business Environment, 2010-2014;
- National Strategy for Sustainable Development of Romania. Horizons 2013-2020-2030 (SNDD);
- National Export Strategy 2011-2015(SNE).

By analyzing Romania's performance in industrial competitiveness, we can say that Romania's economy is primarily based on manufacturing, which is characterized by factors such as:

- Skilled labor, especially in sectors like textiles, knitwear, yarn and fiber, leather;
- Heavy machinery or equipment, especially in areas such as fiber and yarn, mill, cement;
- Energy intensive approach, valid for almost all branches.

The result is: an industry with relatively low skilled labor and low levels of the triad research, development and innovation. We can also see some of the results from the structural changes, however their paces is below those in the EU area, therefore appear less visible in Romania. These structural changes occur in:

- High technology (radio-TV);
- Dominant industries (cars, wires&cables);
- In areas dominated by knowledge and higher education level (communications, software).

As a result, the structural changes are associated with the reduction in traditional specialization in Romania. The economic crisis of recent years has emphasized these structural changes. Romania is classified as a modest innovator, in accordance with the findings in the documents of 2010, way below the EU average, partly due to the relatively low share of innovative enterprises and low investment in research and development by companies. However, in terms of growth, Romania is among the leaders, including here the group of countries called "countries with ongoing catching-up".

#### **Case study - Mechatronics**

One of the industrial branch that contribute to industrial catching-up, recorded in Romania, is mechatronics, due to the fact of its location on the border of several sciences. Located in a trend, similar to that in developed European economies, the field of mechatronics stirs interest among Romanian specialists, coming from different disciplines, presenting clear opportunities for future development of interdisciplinary activities, but also for the manufacturing, as a

whole. In the current form, „Mechatronics<sup>29</sup> represents a trans disciplinary field of engineering, a synergistic combination, between precision mechanics, and electronic systems for computerized command and control, that helps design, implement and commission intelligent automated systems”.

The Romanian industrial sector of Mechatronic is a young sector, developed through technological processing coming from two well-defined components of manufacturing, before 1990: precision mechanics and electrical engineering. Further integration of electronics and computer science has led to new openings, diversification and shaping new profiles within the manufacturing sector, mainly as a response coming from the horizontal industrial requests for mechatronic products.

Some of the most interesting characteristics of this field are:

- It makes an extremely important contribution to the creation of qualitative competitiveness and added value for all products and services of the domestic industry as a result of determined characteristics of the sector:

- High share of smart products;
- High degree of multidisciplinary connections, automation and miniaturization applied on all offered products and services ;
- Ensuring a high degree of monitoring industrial processes;
- Adaptability and flexibility conferred to industrial applications;
- The presence of natural resources required to cover intermediate consumption;
- It benefits from highly skilled personnel and expertise that support the industry through competence, modern management, adaptability to low labor costs, creating also appetite for foreign investments;
- Tradition of specialized school and recognized experience, along with the EU requirements.

Through the complex areas within the structure of industry and through its integrative nature, Mechatronics helps to develop synergies and high capability to direct and support the development of innovative SMEs.

Given the increasing interest shown around this area, Romanian specialists have investigated the prospects of its development – through various studies or specialized events. We decided to presents a series of results obtained during a

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<sup>29</sup> According to specialists from National Institute of Mechatronics, Inovelcluster II Project, 2011-2012

public foresight exercise conducted to identify possible ways of development on this field, in Romania, based on the promotion of innovative clusters – as an instrument of the new industrial policy promoted by the European Commission.

### **Foresight of Mechatronics in Romania**

On the 26<sup>th</sup> of June 2012, a symposium was held, regarding "Clusters, drivers of the innovative development of industrial sectors", in which besides the seminars for textiles and machinery, there was held also a foresight seminar in the field of mechatronics-electrical engineering, based on a specific methodology.

Among the participants were approximately 12 experts representing research institutes, academia, and firms.

The SWOT analysis was based on the studies conducted by the Institute for Research and Development in Mechatronics (INCDMTM) and the Institute for Electrical Engineering (ICMET), each containing broad SWOT analyses. In the moderated discussions, the following factors, outlined in the following table, imposed themselves:

<b>Strengths</b>	<b>Weaknesses</b>
<ul style="list-style-type: none"> <li>- Branch with rich tradition, including education</li> <li>- Electrical engineering is a net exporter on the EU market</li> <li>- RDI intensive sectors</li> <li>- Skilled staff</li> <li>- High technology fields</li> </ul>	<ul style="list-style-type: none"> <li>- Low value-added products</li> <li>- The strict specialization of enterprises vs. Integrated demand provided by large consumers</li> <li>- Small number of firms in the field</li> <li>- Low investment</li> <li>- Lack of a coherent policy in the field</li> </ul>
<b>Opportunities</b>	<b>Threats</b>
<ul style="list-style-type: none"> <li>- Increase of productivity and of added value</li> <li>- Increasing domestic demand</li> <li>- The emergence of clusters that integrate the offer along the value added chain</li> <li>- Dedicated European programs</li> <li>- Convergence with EU policies</li> <li>- Capitalization of innovation results</li> </ul>	<ul style="list-style-type: none"> <li>- Decrease of RDI expenses</li> <li>- Strict regulations in the field</li> <li>- Workforce decrease/aging</li> <li>- Imports greater than exports</li> <li>- Rising energy costs</li> <li>- Asian competition</li> </ul>

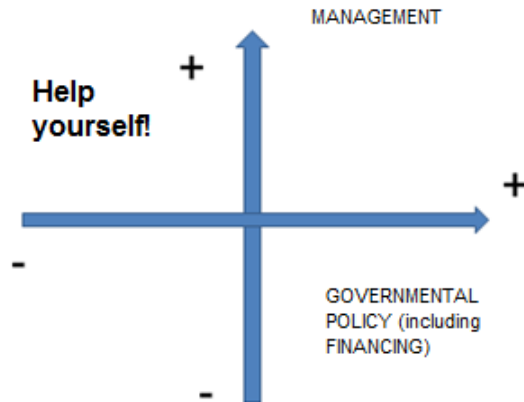
Based on the SWOT analysis, the following trend, on which the shaping of the scenario later focused, was issued. The emergence of innovative clusters in the field of mechatronics/electrical engineering, that integrate firms along the value



chain, that build based on tradition and qualified personnel, that resort to existing European programs, that capitalize on the domestic demand and on the innovative potential, in order to combine the strict specialization of firms and to handle the integrated demand, to counteract the competition from Asia, the decrease in and aging of the workforce and the rising energy costs. Following the moderated discussion, key factors influencing the area of analysis were identified. These factors were then ordered by relevance/degree of uncertainty. Usually, the participants distribute a limited number of points in two different colors to indicate those elements considered important and/or uncertain. Each participant had to divide three votes between the proposed factors, both in terms of relevance and uncertainty. Two factors were retained, in the order of the score obtained by multiplying the previous results.

Factor	Relevance	Uncertainty	Score
<b>Governmental policy</b>	<b>9</b>	<b>8</b>	<b>9x8 = 72</b>
Involvement of local public authorities	0	0	0
Collaboration between education-research-development	1	1	1
Research and technological development in firms	2	3	6
Joint marketing of the SMEs in the cluster	0	0	0
Financing RDI	7	6	42
Infrastructure	4	4	16
Promoting associative concepts (cluster)	1	0	0
Competence of decision makers	0	3	0
Number and density of SMEs	0	0	0
<b>Management</b>	<b>7</b>	<b>4</b>	<b>28</b>
Communication and trust between cluster members	1	0	0

In order to establish a scenario matrix, the so-called critical uncertainties would be selected (usually 2, to limit the space of the scenario to a two-dimensional plane). Critical uncertainties are the elements with influence (key factors), while also being the most uncertain, as well as the most important. The matrix was designed according to the figure below.



The first (government policy) and the third factor (management) were chosen for analysis because the participants believed that the second factor, namely financing RDI, would be, to some extent, included in the first factor, thus losing some of its relevance. The participants chose to develop the scenario in the second frame (governmental non-interference, but with performing cluster management). Several titles were retained: "Through ourselves", "Help yourself", "Performance through intelligence". There is a strong will to develop innovative clusters in this field, but a lack of resources. As a result, clusters will develop around certain companies manufacturing products with low costs and the investments will be low. There will be difficulties in capitalizing the innovative potential. The problem of labor (brain drain and aging) will persist. The management will be forced to find innovative incentive solutions. Alternative funding sources will be accessed (including EU funds) and market niches will be sought (e.g. wheelchairs for the disabled, small engines for household appliances, wind turbines). An aggressive international marketing will be practiced and mergers will take place on specific market niches.

### Conclusions

1. Industry is one of the main sectors of the economy. For this reason, the overall objective of the industrial policy is to increase competitiveness and performance of Romanian industry within the global and European context. This can only be achieved by encouraging sustainable development, supporting research and development, innovation and entrepreneurship.

2. Industrial policy is implemented at national, regional and local level through various governmental documents, as well as programs and strategies. The vast majority of these have as main objective to improve the business environment by supporting SMEs, in terms of technological renewal, by promoting innovation, research and technological development, the development of networks and clusters, especially those who are innovative, and also improved access to finance.

3. For Romania, which is currently specializing in the textile, footwear, cement and metal area, on the long run, the challenge is to switch to smart activities with low carbon emission and efficient in terms of resource use, which also enables a way to overcome the present situation that is characterized by low skilled labor and energy intensive sectors.

4. One of the industrial branches in Romania, which is able to attract the attention of investors and policy makers alike, is the interdisciplinary field of mechatronics.

5. Based on a foresight exercise carried out in a research project (INOVCUSTER II, Project), the authors try to outline the prospects for the development of mechatronics based on promoting clusters, well appreciated by the European institutions, as a necessary tool of the new industrial policies, and further more as a catalyst for innovation and economic efficiency.

6. Following this foresight exercise, some ideas were synthesized:

- Despite of a strong will to develop innovative clusters in this field, there is a lack of resources
- Alternative funding sources will be accessed (including EU funds)
- There will be a search after specific market niches.

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## **SOME ASPECTS REGARDING PERSONAL CONTINUOUS TRAINING FOR MEMBERS OF SPECIAL FORCES**

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**Abstract:**

*Individual assessment is nowadays an increasingly important human resources management applied in national and international branches. The system of individual evaluation of staff is closely linked with performance management providing the necessary elements to ensure training intervention in performance skills required by different standard functions. For special forces personnel who face difficult situations, sometimes extreme, constantly evaluation and training represent a guarantee for the success of the actions. Therefore the evaluation process attaches great importance being adapted to reflect the knowledge and skills required for special forces personnel as it results from the case study and the results of which are presented in this article.*

**Key words:** Special training, management, system evaluation, assessing individual performance, performance, capabilities, development.

**Foreword:** *Human resource management was developed and transformed radically, and with regard to the evaluation of personnel, so as to meet fully the needs of career advancement of staff within the special forces. The main goals of the evaluation process is to develop a person's ability to appreciate or properly or to promote learning techniques based on cooperation. In Western educational systems, there is a profound change from what is called "a culture of testing" to what it wants to be a "culture of evaluation". Human resources, which constitute the special forces operators of interventions, are integrated training process and assessing their performance. It is also in the objectives, content and methodology*

*and evaluation criteria, techniques and instruments, which also represents the formative priorities.*

*On the Special Forces operators, management assessment has major implications in the development of skills and capabilities with intensive and extensive meanings at all stages of development of human personality. There are, also implications for empowerment and rehabilitation process continues until the changes taking place in contemporary society.*

*Evaluation of employment, vocational training and individual (especially for semi-militarized personnel), service assessment (for military personnel) and assessing individual performance (for civil servants) is an activity that develops over time. Or assessment report card is the only document that presents the results of employment, professional competence, commitment to improve training, professional potential, as well as ethical professionals in special structures.*

*Staff assessment work is a service obligation for managers who are responsible for its objectivity. In order to achieve an objective assessment of personnel, the commanders of all units and leaders of human resources departments are obliged to ensure that the development potential of subordinate staff. The work is structured in three parts, first give a brief overview of the theoretical aspects of performance appraisal of staff dedicated to special tasks, the second part highlights the importance of organizational leadership in special forces, given the importance that any member of the team to develop the leadership skills to be able to take over in case of need, the role of leadership to the team the third part presents a case study related to the assessment of a team made up of 47 volunteers of a unit of the special forces and finally some conclusions are presented.*

### **Experimental part**

#### **1. Performance appraisal of staff dedicated to the execution of special missions**

In the process of human resources management, the evaluation of continuous training special forces in structures concerning individual training assessment and evaluation of training programs. Evaluation of individual staff training will be carried out after passing exams, after finishing training programs or in other cases still under regulations of the field.

Performance appraisal of staff dedicated to the execution of special missions is interesting in that it offers operators and tactical and operational

leadership for an answer immediately for each graphic. We can say that the professional dimensions relate to the specific activities of each position and will be in the assessment prepared for each operator.

In terms of evaluation of training programs<sup>30</sup>, this is achieved through the analysis of the processes of professional staff, the results obtained at the annual/bi-annual inspections and the way of organizing and conducting training.

The evaluation of training programs can serve as an important means of checking its efficiency. The special forces assessment is performed according to the measurement, assessment and decision. The work of measurement implies that the behavior of a member of the special forces and attaches quantitative determinants (quantification).

The appreciation is the size of the evaluation. The decision involves the location of a ranking system. The evaluation of training programs are organized at the level of permanent establishments and the structures involved in the continuous training of management at the upper echelons, and annually according to competences. Thus, it is necessary to establish the dimensions of the professional activity targeted by the program. Performance appraisal is appropriate only after professional dimensions and performance standards have been clearly established. Assessment holds a subjective component, which you can interpret either a risk or an asset. No doubly, assessment consists of attaching a valorization of the measurement. As regards the preparation of special personnel, it also includes ratings on specialized training and shooting, through inspections carried out stages. The process of performance appraisal is done by determining the way in which a member of the special forces is fulfilling the tasks of the service and comply with the standards of the profession or professional specialty. This process will take into account the results obtained in carrying out specific job functions in which it is framed and the main objectives of the group.

To determine the potential of an operator in the special intervention forces at any given time, is based on the performance assessment proved in missions and personality features. Evaluation of the potential which lies in determining how the professional competence, behavior and skills of an operator give certainty of fulfilling duties of responsibility for specific functions and higher ranks of those held at the time of the evaluation. Performance appraisal is the procedure by which to determine the level of performance of individual objectives and the level of

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<sup>30</sup> Hofstede, G., *Cultures and Organizations. Software of the Mind*, New York, McGraw-Hill, 1977, p. 90;

professional skills and behavioral characteristics of the operator, in order to evaluate the results achieved and identify professional development needs. The objectivity of the evaluation depends on the competence, fairness, impartiality and moral integrity of persons with responsibilities in this area. Leaders are required to appraise correctly and objectively the performance and potential of subordinate staff.

In accordance with European recommendations training, in order to achieve efficiency, need to follow several principles, as follows:

- legality - compliance with legislative framework of national and European, in the military field;
- forecast-evaluation planning and execution according to the evolution of doctrines, military structures and special resources;
- evaluation - planning so that all staff specifically to be included in the process;
- continuity-evaluation, throughout the preparatory process;
- opportunity to conduct the evaluation in moments-and on issues that have the greatest interest in the training;
- operation with an essentiality - rating system is unique, clear, concise and effective;
- objectivity – ensuring the impartiality and professionalism of the staff who carry out assessment, proper measurements and assessments made;
- liability - creating liability for manager/head special military group, evaluator,
- efficiency - accomplishment of the evaluation within a strictly determined and using a minimum of resources;
- harnessing - information and conclusions relevant to the justification of subsequent decisions, the removal of shortcomings and improvement of the planning and execution of training.

Special staff assessment shall be carried out during the process of training and indicate where are the partial results from the finale. Thus, it facilitates the learning process and highlights the progress of a student or gaps and obstacles in the process of assimilation of training topics. After the staff assessment<sup>31</sup>, it will be drawn up an after action report which will be sent to the upper echelons of the departmental or inter-departmental structures.

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<sup>31</sup> R.L. Daft, Understanding management, Amazon pdf. file share, 2012;



Log reports; include a summary of the exercises/applications, objectives, deficiencies, measures taken to remedy the shortcomings and to increase the level of training of the staff.

According to the principle that any learning activity should be evaluated from the point of view of the effectiveness of the special structures can implement an evaluation system structured in three stages, as follows: completion of preparatory action classic, after returning to the student in the workplace (done by the trained Manager) and after an interval of approximately 6 months after the training is completed. Depending on the results of the evaluations, that can be taken some steps such as developing content or repeat the task. Also, the results of the evaluations shall be taken into account in the preparation of annual staff assessments, formulation of proposals, to promote their inclusion in other training programs, etc. Initial evaluation of the operator, that aims to diagnose the level of training, at the beginning of a period, as well as to the classification of the special units, in order to know their level of training.

The current evaluation aims to ensure systematic and continuous training and shall be carried out in particular by the commanders who observed their attitude, how to resolve situations to which they are subjected to the operators. Regarding the assessment of periodic or interim, it aims at verifying the degree of assimilation of the subjects followed over a period of time. In the system of training of special forces personnel, the final assessment is made up of several components, namely: monitoring, assessment and marking. These functions are: educational, selective and competitive and vocational guidance.

## **2. Organizational Leadership within the special forces.**

The special military task force, both during training, as well as in the missions deployed in action, you will need to have a series of features and abilities, which will in turn indicators in the evaluation process. Readiness aims to distinguish personal features of evaluated for use and effective professional development in a military career. The basic theory is that a leader or head of a tactical group must have the capacity for operational sequences, as follows:

1. The ability to drive that refers to personality traits and driving skills of special military groups and the integration of their resources, for the achievement of the objectives of the organization and of the individual;

2. Professional competence, skills and knowledge means all those experiences, performance, and appropriate military profession qualities that give the possibility to act effectively in military environment.

3. Conceptual capacity defines the ability to design, to conceive or to think plans, programs, concepts and instructions.

4. Action capacity reflects the skill to take action, to implement a plan or program to exercise influence on people and actions to involve people and resources intended.

5. Resilience involves how to act with calm and self-mastery and to have maximum results in terms of the changing environment and generating pressure and stress.

6. Processing capacity denotes the actions oriented towards the development of professional knowledge and skills, improving the general and specialized training, improving both personal and performance of subordinates.

7. Judgment expresses the ability to think logically and rationally, to discern and ruminate, to form an opinion about someone and something, examining the arguments, circumstances and consequences, to assess and qualify a person, a situation, a fact.

8. The initiative means the ability to dare take the urge or literally, to propose, organize or start an action, involving himself and others.

9. Courage expresses the moral strength to boldly face the perils and pitfalls of all kinds and to trust in their own forces, strength of character, firmness in stocks or in the event of beliefs.

10. The force of personality traits relevant to summarize for the military profession, the honor, responsibility, loyalty, integrity, selflessness, discipline, solidity.

11. The ability of communication reveals the level of speaking, writing and listening, willingness to express and manipulate ideas and concepts, to receive and transmit messages.

12. The behavior involves assessing the military environment, events relating to your dealings with others, mutual respect and habits.

The international environment has an uncertainty profile in terms of the transparency of procedures and training readiness assessment, most systems of evaluation of staff training in the special forces, remain unconfirmed as you like. In the system of special operations (SOF) are removed from process deficiencies

mentalities of preparation, namely, convenience, superficiality, suspicion and distrust, and the restriction of the spirit of initiative.

The strategic objective of a special tactical group is to become unique and fully integrated units, to support special operations (SOF), support services for troops in conducting major operations in hostile environments. The characteristic of the special forces, military intervention is determined by the nature of the military and is highlighted by a set of core features<sup>32</sup>.

### 3. Results of the evaluation of executive capacities through staff performance indicators within the special forces.

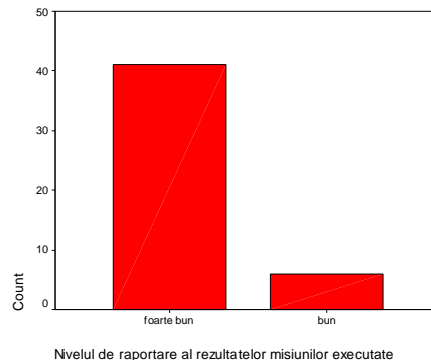
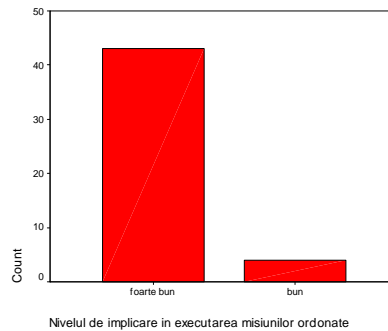
To highlight the assessment of special forces personnel was a case in his dissertation was entitled a special unit on a batch of 47 volunteers, with seniority of between 23 and 37 years, with secondary and long-lasting education. Such a sheet was completed for each of the special forces operator, statistical processing of data obtained by determining a clear view of the current level of overall subunits making but also for every operator.

#### A. *The level of involvement in the execution of the missions ordered*

From the graph we see that a number of 43 operators (91.5%) were evaluated with notation "very good" and a number 4 operators with "good" rating (8.5%), which indicates the classification of the staff structures in the requirements requested.

#### B. *Reporting level of the results of missions carried out*

The majority of staff assessment indicator obtained favorable grade rated, meaning that operators know very well how he operative situations reporting and the achievement of the tasks. This time, the operators (41%) were evaluated

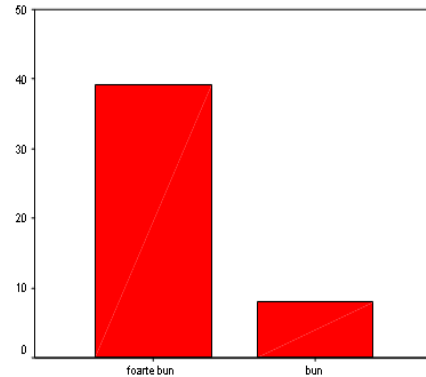


<sup>32</sup> Edwin A Fleishman. - *Twenty Years of consideration and structure, in Current developments in the study of leadership*, Ed.Edwin, 2000, NY;

87, 2 with notation "very good" and 6 operators with a "good" (12.8%)

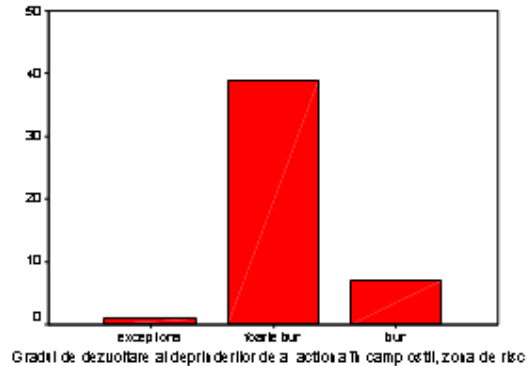
**C. Ability to resolve incidents recorded during the execution of the missions).**

This indicator is one of the most important segment of the operational assessment and that's because the specifics of the missions they carry special forces operative situations are extremely dynamic and complex. Note that although the staff evaluated was appreciated, the number of those who received "very good" rating drops to 39, so only (82, 9%), an important proving capacity required of an operator in the special forces.



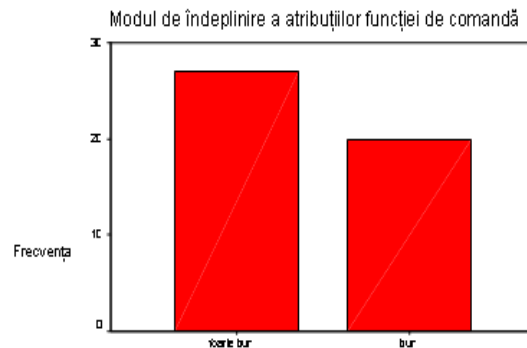
**D. The development of skills to operate in hostile areas of field/risk**

The ability to deal with the characteristics of a "hostile field" as the field missions with high-risk allows a good adaptation of the operator's psyche to the existing situation. Operators must be able to meet the requirements of any counter-terrorism and repartee results the evaluation we can deduce that at the moment this does not raise problems: exceptional (by 2.1%), very good, 39 people (83%) and good only 7 people (14.9%).



**E. The performance of the duties of the command function.**

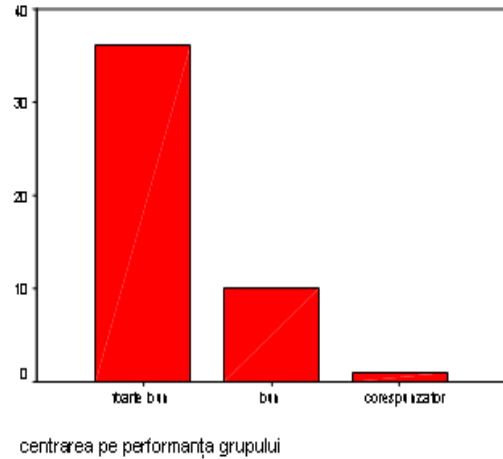
This indicator might appear somewhat forced in analyzing the performance of each operator, especially if you go on the principle that it is the only level of execution. Experience shows, however, that whenever an operator must be prepared to take command of a group if the situation so requires, not to mention the fact that many of the non-commissioned officers are appointed heads of crews/missions. Owing to the



relatively large number (almost half the rate operators) who have obtained good rating (20 operators), we conclude that this is a second aspect that can support improvements.

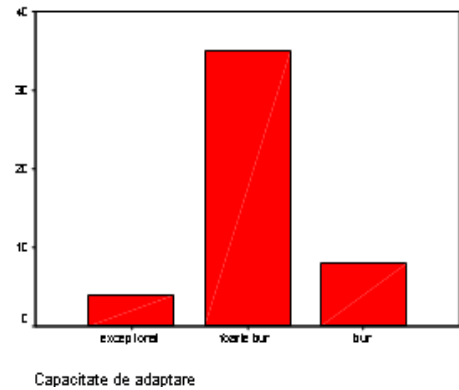
**F. Focusing on the performance of the group**

Do not consider that it is necessary to emphasize the group's role in the successful completion of these types of missions (I did it in other parts of this document). The degree of integration in the community, capable of stimulating cooperation, training, competitions and empathy are aspects that contribute to overcoming the individualism and personal contribution to the performance of the group. Unfortunately, an operator was nominated with appropriate rating, which entails a careful analysis of the relevant person, the individual's integration efforts, and in case of failure he will be remove from team. Life in a specific unit also may require tough decisions, but if the balance is put in jeopardy by an operator then sacrifice is not free.



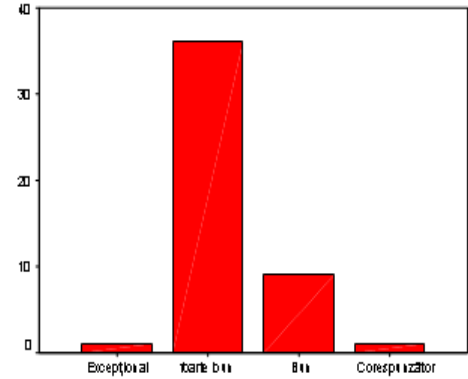
**G. Capacity to adapt**

The ability to adapt the operators gets positive results: exceptional – 4 (8.5%), very good – 35 (74.5%) and good-8 (17%), which is a good indication of their potential.



### H. Stress resistance

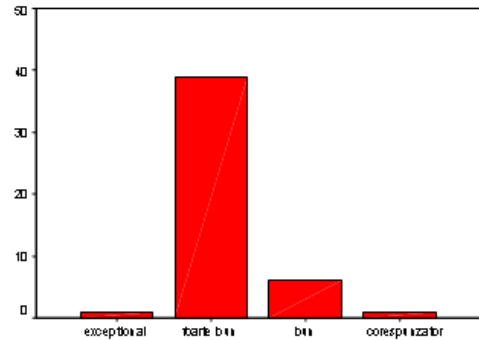
The widest "exceptional" – 1 (2,1%), "very good" – 36 (76,7%), "good" – 9 (19,1%) and "properly" – 1 (2,1%), presence of a corresponding qualifier paying attention in the "properly" – 1 (2,1%), presence of a corresponding qualifier paying attention in the future.



Rezistența la stres

### I. Physical and mental stamina

Surprising is the result in the case of physical resistance considering that it is an elite structure where physical training is important. The results indicate a wide ratings of "Excellent" – 1 (2,1%), "very good" – 39 (83%), "good" (12.8%) to "properly" – 1 (2,1%).



Rezistența fizică și psihică

### Conclusions

Continuous management of special forces training system offers the application, ensure the reform radical in training content, didactic technologies and logistics, in the selection, evaluation and promotion.

Clearly, special military groups, leaders must know, is going the way of preparation process of staff dedicated to the execution of special missions and to know to what extent the particular staff is sufficiently trained so as to carry out the missions entrusted to it in optimum conditions.

As an integral part of the process of preparation, the assessment is made during the training and identification of these problems is through specific evaluation activities, being applied to all aspects of training.

Through the work of the evaluation is to identify existing shortcomings in the preparation and determine the level of performance. These items must be permanently to the attention of the leaders of the tactical groups on special forces and trainers, and based on them to adopt the necessary measures and specific remedies.

The case study presented showed that the present evaluation system has some areas where the training system needs to be improved, the results being generally corresponding to the part, with one exception, in the first three ratings (excellent, very good or good). However, it is reported the discrepancy of individual assessment and the final makes it necessary to introduce a weighting coefficient of various aspects taken into consideration in the assessment of subjectivism in assessing the reduction. Instrumental in this case master which can indicate how best can be constructed the weights.

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2. Hofstede, G., *Cultures and Organizations. Software of the Mind*, New York, McGraw-Hill, 1977, p. 90;
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## **ANALYSIS OF LABOR MIGRATION AT NATIONAL LEVEL**

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### **Abstract:**

*Article is intended to describe the general aspects of migration, labor migration from Romania and how this phenomenon affects the labor market at national level.*

*The activities undertaken in this article reveal a diagnosis of the current situation and a forecast of future trends of labor migration, study on the situation of Romanians abroad, the perception of foreigners on Romanians.*

*The developments seen in the phenomenon of labor migration easily highlight the way liberal democracies work and how European development process, even the transformation of immigration policy, adaptability and openness to change, questionable character and difficulties encountered along the way.*

**Keywords:** *workforce; population migration; European development; economic transformation.*

**JEL Classification:** *F63; O15; Q32; R58.*

### **1. Introduction**

Migration is one of the most widespread socio-economic phenomena in Romania since the fall of communism in 1989. Thus it is estimated that approximately 10% - 15% percent of the population has left the country after 1989. Following the revolution that took place in 1989, an opening of borders was made. Romania's massive emigration occurred after the migratory flows were mainly determined on the basis of ethnicity, more than 75% of immigrants were ethnic Germans, and the rest were Hungarian and Hebrew.

Thus the relationship between migration and demographic trends and labor market developments in Romania has experienced many changes, based on a comprehensive review of the literature. In many descriptions Romania appears as the east gate having the status of the European Union.

Research on immigration and integration of foreigners in Romanian society aims to provide an overview of the current situation, priorities and vision for the immigration management by Romania.

Migratory flows aimed at Romania analyze trends and changes that have occurred or will transform composition, number and profile of the immigrant population in Romania.

In conclusion, legislative and regulatory requirements that characterize national immigration system and the integration of foreigners, institutions at central and local level with responsibilities in this area and developed general or specific public policies for immigrants.

## **2. Research Methodology**

Romania is in a very small extent a destination country, so immigration was modestly characterized before 2000 and only prospects for EU accession and economic recovery, accompanied by labor shortages have contributed to labor migration to Romania.

Entrepreneurs have also contributed to the formation of the migration phenomenon in Romania by hiring more foreign workers. However, given the trend of sustained growth, a widening of labor shortages and an aging amplification, National Prognosis Commission estimates that by 2013-2015 approximately 200,000-300,000 workers foreigners will enter the Romanian labor market.

Defining immigration and integration of foreigners in Romania Romanian society had as its starting point the situation of third-country nationals legally residing in Romania.

Romania is a crucial country when it comes to illegal immigration as a source. Upon accession to the European Union, it is a gateway to Europe to Asia and its location at the crossroads of Eastern and Western Europe, it is expected that this will mean major flows of irregular migrants in transit that will be laid down by the country.

Immigration and integration of foreigners in Romanian society is determined through research that does not claim to be fully assigned, but only

intended to be a useful, easy to understand tool for mapping and highlighting milestones in the evolution of immigration and integration of foreigners, at a time and on the basis of the information available.

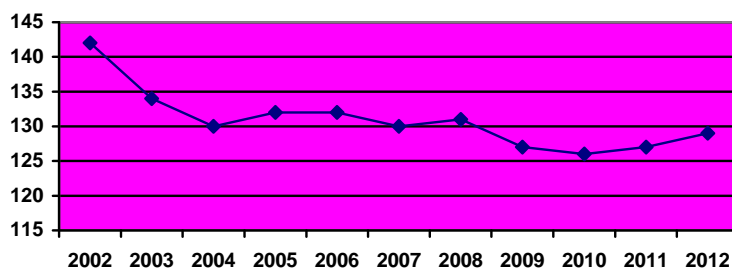
The analysis of statistical data that is identified throughout the entire transition period coincided with demographic decline which resulted in the loss of about 1.5 million people in 2002-2012, with a total population of 21,673,326 now.

Analyzing national demographic situation shows that between 2002-2012 the cumulative effect of negative natural increase and net migration recorded, led to a decrease in the total population of approximately 700,000.

Given that this estimate of the population is correct, this would mean a loss of 3% of the population in 10 years, which can be considered quite much for a country like Romania.

When discussing migration and the labor market in Romania, it is essential to know the demographic situation of the country. This will help us better understand how migration trends could affect the structure of the labor market.

Throughout Europe the growing proportion of elderly people, in contrast to a decrease in working age population raised concerns about the social sustainability of the welfare system.



Source: [www.eurostat.ro](http://www.eurostat.ro)

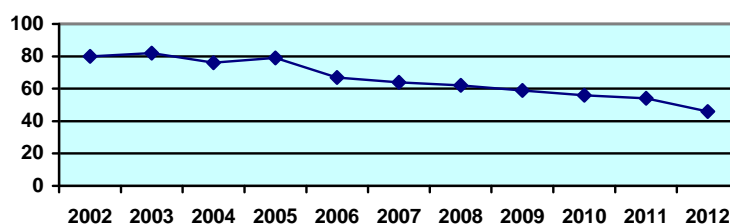
**Figure 1. Demographics of Romania**

By analyzing the graph above (see Figure 1) one can observe a steady decrease in the number of inhabitants in Romania except for certain times when we tried a regression. Thus the most visible decrease can be observed in 2002-2004.

A demographic decline may not have visible short-term negative consequences, since it allows more efficient allocation of such resources (education, health, social security and public welfare system). Because of these major changes occurring in the population decrease will be affected all age groups

as 40-64 years group will expand while smaller groups will experience significant reductions, especially groups after 1989. This establishes that the average age of the working population is approximately 45 years. Looking at the economic impact of demographic decline, while taking into account age, it clearly shows that even with an improvement in the fertility rate, negative consequences would not diminish.<sup>33</sup>

The situation in Romania population greatly affects migration. So if there is a very low standard of living the country will not be of interest to foreigners, and they will not come to Romania while Romanians will always be tempted to leave the country.



Sursa: [www.eurostat.ro](http://www.eurostat.ro)

**Figure 2. Number of employees in Romania**

Analyzing the graph above (see Figure 2) we can see a continuous decrease in the number of employees in Romania. In order to understand how migration may affect the occupational structure, we must refer to potential developments in the labor market.

In almost all studies in this area, the authors have done an in depth analysis of the labor market in Romania as well as possible developments in the coming years.

The chart above shows the development of the labor market in Romania until 2012. Most jobs in Romania are in agriculture, with 26.8%, followed by workers specializing in maintenance and repair of machinery 17.7%, and in the third place, in trade and services with 11.7%.

The labor market is proving to be a second major indicator that characterizes migration in Romania. Due to the lack of jobs in the country, the vast

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33 Craciun, L., *Viitorul si noua fata a economiei*, Theoretical and Applied Economics, Economic Publishing, Bucharest, 2012, pp. 65-72

majority of the working population is determined to go to another country, motivated by better paid jobs.<sup>34</sup>

Currently, virtually all countries are involved in the complex process of international migration of labor, being in the process either as countries of destination, either as countries of origin, either - transit, but in all cases they are influenced by this phenomenon in social, economic and political levels.<sup>35</sup>

Unlike most Western countries, the recent history of migration in Romania is quite short. Communist leader Nicolae Ceausescu closed migration policy supported by both restricting the entry of foreigners into the country and restricting those who wanted to leave the country.

Migration was only allowed under the strict government supervision. Thus, Romania was restricted to employment exchanges, visits by students, short-border organized tourism and migration of ethnic minorities. In these cases, those who managed to leave the country were generally nearer the control bodies or had connections with the political elite.

Also, groups such as criticism of the regime and ethnic minorities, German and Hebrew were allowed to leave the country. There were also people who have crossed the border illegally.

Currently, immigration profile indicates rather young men aged 18-35 years with vocational school studies or higher education who work in skilled jobs in major cities and in Bucharest.

There are already deficiencies in the labor market both in the primary labor market and the labor market side. For example in Bacau textile factory Chinese workers were brought in jobs they managed to occupy because they have skills in the textile industry.

The vast majority of rural youth in Romania choose to emigrate abroad, so large agricultural areas remain uncultivated. Agriculture is not only affected the labor force, and changes in the lifestyle of non-migrant population who have to work the land, they being supported by remittances.

The data that refer to emigration and immigration, between 2002 - 2012 surveys reveal that 7.3% of the population worked abroad at least once during this

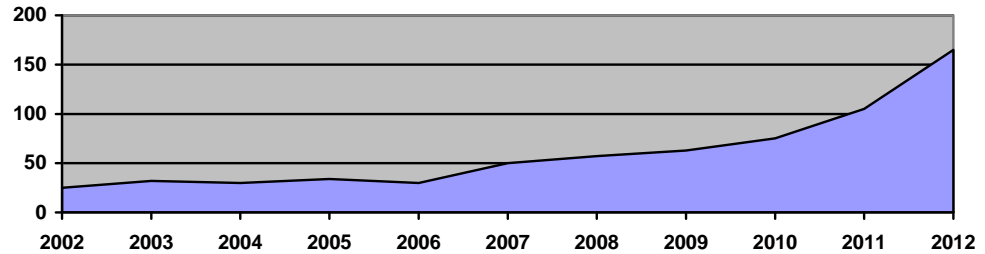
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<sup>34</sup> Molanescu, A., G., Aceleanu, M., I., *Consequences of the Budget Deficit in the Current Crisis in Romania. Implications on the Labor Market*, Theoretical and Applied Economics, Economic Publishing, Bucharest, 2011, pp. 59-74

<sup>35</sup> Andreescu, D., Teodorescu, A., *Emigratia în scop de munca a romanilor dupa 1990*, Editura Yes SRL, Bucuresti, 2004, pp. 67-72

period. Also, 13% of households in the period 2002-2012 had 1.5 members abroad, representing approximately 1.4 million migrant labor market<sup>36</sup>.

The figure below (see Figure 3) describes the evolution of labor migration in the period 2002-2012. After opening the borders in 1990, labor migration gradually increased. In 2002, visa restrictions have been removed.



Source: [www.eurostat.ro](http://www.eurostat.ro)

**Figure 3. The situation of immigrants in Romania during 2002-2012**

During 2002 - 2006, changes in labor migration trends were less visible. The above chart is used to support a statement that highlights a fairly constant trend of migration between 2002 and 2006, major changes occurring from 2008 to present. For the next period an increase in migration is expected.

If in 2002 5% of the adult population said they had worked abroad, in May 2003, this percentage increased to 7.3%, which is roughly 1,250,000 people. Analyzed by another indicator, "household members abroad at the time of interview" highlights the fact that 580,000 households have at least one member abroad.<sup>37</sup>

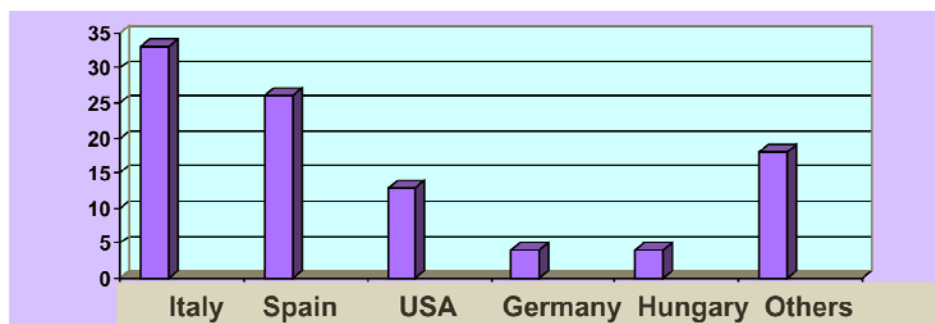
Regarding the preferred destinations for migration (see Figure 4), it appears that Italy, Spain and the United States are the most popular destinations. Regarding options preferences destinations, they have changed over time, if at first Israel,

<sup>36</sup> Mariana Balan, Uzla C., "The migration in the context of the current economic and financial crisis. Comparative analyses", pp. 82-99, revista „Romanian Journal of Economic Forecasting”, Year XIII, The Expert Publishing House, Bucharest, Romania, ISSN 1582/6163,

<sup>37</sup> Vasile, V., Balan, M., *Impact Of Greenhouse Effect Gases On Climatic Changes. Measurement Indicators And Forecast Models*, articol publicat in Faculty of Sciences, "1 Decembrie 1918" University, Alba Iulia, Annales Universitatis Apulensis Series Oeconomica

Turkey and Italy were the main destinations, Spain and Italy currently absorb more than half of all migrants from Romania.

Regarding intentions to migrate, lately there has been a slight change, indicating France and Britain as potential destinations.



Source: [www.eurostat.ro](http://www.eurostat.ro)

**Figure 4. Favorite destinations of immigrants from Romania**

According to a recent study, immigrants from Moldova are most numerous foreigners in Romania, followed by Turkish and Chinese immigrants, of whom 89.88% had a temporary residence permit and 10.12% had a permanent residence permit.

An important development in the law and institutions was made on the Romanian citizens working abroad. In recent years the Government of Romania has signed several bilateral agreements with countries that have been shown to be important destinations for Romanian workers (such as Spain and Italy). Agreements of this type are intended to ensure equal conditions of employment for Romanian citizens and residents, and to create a legal framework that labor mobility can grow while the country is still in transition.

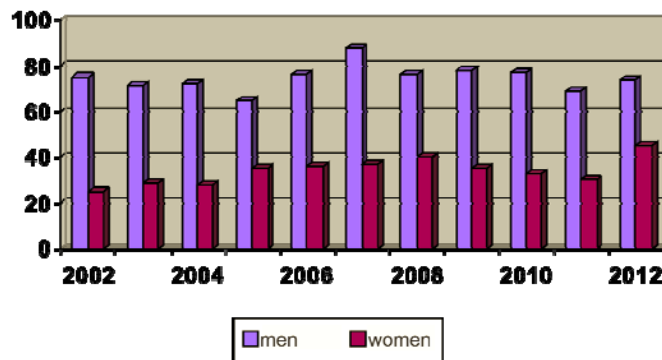
Currently, immigrants in Romania are mainly business people active in different market sectors that are not explored enough by Romanians, either because of the nature of their business, or because relative prices for their products, addressing category buyers. The least significant in number, but have a major impact on the local economy are Italian, German and American investors.

Italian investors in Romania, especially prefer the north-east, respectively Moldavia region. After the fall of communism, many public enterprises have been restructured or bankrupt, and Italian investors took over the industry in the area.

Cultural contacts and interaction with Italians further contributed to the structuring of migration intention.

Most migrants working abroad had jobs in construction (36.1%), agriculture (28.1%), private households with employed persons (household care), 14.6%, and hotels and restaurants (11.6%).

A significant proportion of migrants were characterized by unemployment, which might suggest that international migration could reduce unemployment. The data analysis shows that a constant aging of population appears and a high polarization between the numbers of dependents.



Source: [www.eurostat.ro](http://www.eurostat.ro)

Figure 5. The situation of immigrants in Romania by gender

By analyzing the graph above (see Figure 5) it appears that the majority of immigrants from Romania are male, they have an approximately constant evolution over the period 2002-2012. Regarding female immigrants we can say that in recent years has made a significant rise, if during the period 2002-2011 it was half of the male immigrants since 2012, this level was exceeded and further growth is expected for the next period.

### 3. Conclusions

In conclusion, men are more exposed to the migration, mostly because of that sectors which are present in the labor market, mainly the most active construction and agriculture.

Research emphasize the fact that generally working abroad is periodically, and people who go abroad to work form their lifestyles as these factors do not



actually consider accepting a job in home country as long as wages remain significantly lower than the potential gains abroad.

An increased potential of migration in the period 2002-2012 in Romania workforce shows the lack of acceptable paid jobs, professional opportunities, an affirmation of the high potential specialization for further education in the home country with the prospect of a better paid job in the destination country in a short time and with minimal expenses.

Romania, which in the past international migration picture was distinguished as a country of emigration due to EU integration, economic and social situation of the country's environment tends to improve and, over time, the characteristics we observed a transformation of Romania country of immigration.

Between 2002-2012, Romania is seen as a country of destination of the so called "third world immigrants", the name is a little forced, given the economic situation of our country for the period 2002-2012. It is true that the local workforce is almost entirely gone to other countries, and in Romania longer had to work someone and workers from outside the EU are brought, such as Chinese, Africans who would do what Romanians should. The problem our country currently has is: qualified workforce leaving Romania is superior to that which comes from outside Romania.

National Strategy for the period 2002-2012 migration expresses general principles and guidelines for establishing Romanian state policy regarding the admission, residence, leaving the territory of the foreign labor immigration, granting protection forms and combating illegal immigration .

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## **EXCHANGE RATE DURING THE FINANCIAL CRISIS**

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### **Abstract:**

*The paper analyzes the evolution of the exchange rate in Romania during the financial crisis in order to offer some information regarding how the exchange rates react in the presence of some shocks. We used a Vector autoregressive technics and impulse function and the conclusion is that in the case of It is observed that an unexpected shock in the interbank operations and aggregate supply leads to a slight increase of 0.2% in the exchange rate leu / euro and a shock in the foreign exchange market trading volume may lead to a negative shock in the exchange rate leu / euro, with a continuing influence of 6 months before returning to the previous situation before the shock. The exchange rate channel is an important tool in taking shocks in national and international economy and the loss of this channel by fixing the exchange rate of the European currency would make it difficult to accept such shocks to the labor market and goods market.*

**Keywords:** exchange rate, vector autoregressive, financial crises.

### **Introduction**

The economic and financial crisis started at the end of 2008, globally extended, highlighted the importance of knowing the nature and the propagation of the shocks and the interaction of various economic measures over national and international developments. A series of studies both in the international and national literature focus on highlighting the impact of various shocks on economic aggregates, seeking for proper solutions to enhance the positive effects and decrease the negative ones. The aim of these studies is to focus on either analysis of a single country, two or a group of countries (the Euro zone or OECD). The analysis tools are being influenced by this aspect and are focused over the development of the exchange rate in the economic crisis.

The exchange rate is one of the major macroeconomic indicators, representing an essential element in a globalized world, providing along with its evolution information on how to integrate the national economy into the world economy in terms of competitiveness.

For Romania, as a member of the European Union, maintaining the stability of the exchange rate is an essential criterion but not enough to be able to start negotiations to entry into the euro area. Although the country is prepared to make its entrance in the Exchange Rate Mechanism of the European Union (Exchange Rate Mechanism ERM II) in 2015, Romania was seen in the situation to delay the decision due to the the impact of economic crisis on both the deficit and exchange rate stability and inflation.

This paper aims to analyze the impact of economic crisis on the exchange rate stability and highlight the response of this macroeconomic variable at some shocks generated by the economic and financial crisis.

The paper is divided into two subchapters, the first one dedicated to an analysis of the exchange rate fluctuations around an annual average value and the second is based on a Vector Autoregressive model and momentum function. The goal is to highlight how the exchange rate react to certain shocks generated by the crisis. The paper ends with results and conclusions based on the topic.

#### **The analysis of the exchange rate**

The rate analysis from the perspective of the accession process to the euro is related to the stability of its evolution according to the central parity, a process that involves finding a country that has a balanced proportion between the national currency and euro. However, the central parity exchange rate may differ from the market exchange rate, so it is essential, that the deviations of the two values to be in a band of variation without exceeding  $\pm 15\%$  which can be negotiated on a narrow band of  $+ / - 2,25\%$ .

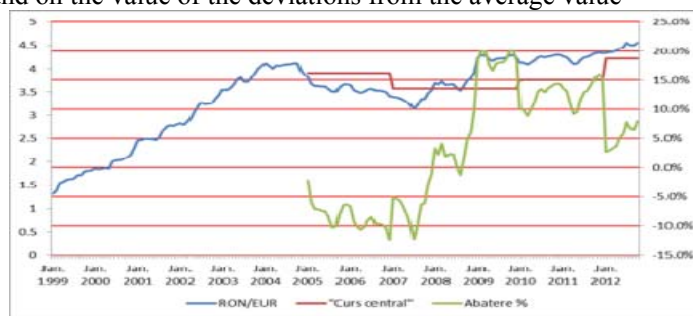
In the exchange rate stability analysis, we start from the hypothesis that the market equilibrates the supply around an equilibrium value that could be determined, in the simplest way, as an average monthly rate determined by the market, given a minimal intervention from the Central Bank. Assuming that this has happened, the exchange rate fluctuations could be due to changes in demand and supply on the substance of the various economic fundamentals. Therefore, the nominal average monthly balances should show monthly local currency versus the European currency.

Significant is that the average exchange rate may vary depending on the chosen period, monthly averages indicating even the existence of three levels of evolution correlated with the progress of our country in terms of the real and nominal convergence.

During the analysis interval, between January 2008 and October 2012 it is noted that the two trends, depreciation and appreciation of the national currency, alternated, the longest period being marked by a steady depreciation between 1999 - October 2004, when it reached a level of 4,108 lei / euro. Other periods of depreciation and appreciation were shorter. It is also noticeable the fact that in July 2007 the national currency reached an historic minimum (3.1345 RON / EUR) and the maximum depreciation of 4,562 RON / EUR was recorded in October 2012 (Figure 1). If we take into consideration the fluctuations of the exchange rate compared to the monthly average, we can notice a relative stability of  $\pm 0.24\%$ , on the exchange rate band variation with three levels evolving changes: over 4 lei / euro in 2004 under 4 lei / euro between January 2005 to December 2008 and a recovery to more than 4 lei / euro during January 2008 - to October 2012.

**Figure 1**

The evolution of the exchange rate lei / euro compared to the average of the year and on the value of the deviations from the average value



Source: data from Eurostat

The analysis of the evolution of the national currency- lei against the euro reveals that the monthly changes of the rate have evolved into a band of  $\pm 4.5\%$  between January 2004 and December 2007 before the real estate crisis in America, became later a global financial and economic crisis. After this date, the fluctuations become larger so that in January 2009 compared to December 2008 there was a massive monthly depreciation of 7,98% and in March 2011 the maximum monthly appreciation of -1,97%, as we can observe in figure 1. Compared to the average period of January 2004 through October 2012 whose level is 3,946 lei / euro the exchange rate variation was within a band of  $\pm 15\%$  with the exception of seven values (between April and September 2007 six of which exceed 15% evolved in a

wide band up to -20,6% and an amount exceeding 15%, in October 2012, to a level of 15,62%). It is though remarkable that in 2009, under the effect of the financial crisis fluctuation band, the exchange rate went from the accepted landing of the EMR mechanism II criteria with ( $\pm 15\%$ ), reaching 20% in February, October and November 2009. The chance that Romania would be able to maintain its calendar entry in ERMI decreased, therefore, under this circumstances and on this point, the delay decision is justified.

The dates shown in the figure, underline clearly the exit of the variation band of the exchange rate leu / euro confirming that under the influence of the financial crisis, Romania lost the ERMI start mechanism and its entry into the euro area, which is actually in agreement with the government's decision to postpone this moment without mentioning a later date.

### Shaping the shocks on the exchange rate

In order to highlight the exchange rate and its reaction when it comes to shaping on various shocks we have used the autoregression vector methodology that allows applying impulse function and highlight the rate behavior at different shocks.

The reduced form VAR is expressed as a linear function of each variable according to its past values, the past values of other variables considered by the series of uncorrelated errors as in the mathematical expression:

[1]  $y_t = \alpha_1 y_{t-1} + \dots + \alpha_p y_{t-p} + \beta x_t + \varepsilon_t$  - the equation includes exogenous variables

[2] or  $y_t = A(L)y_t + u_t$  - equation contains only endogenous variables

where  $y_t$  is a vector of  $k$  endogenous variables;  $x_t$  is a vector of  $d$  exogenous variables and  $\alpha$  and  $\beta$ , are matrices of coefficients to be determined and  $\varepsilon_t$  is the vector of the uncorrelated errors with their own lagged values and uncorrelated with all of the righthand side variables and  $A(L)$  represents a polynomial of  $p$  order which delays error terms in equation [2] is the sudden change of variables, after taking account of the past values. If different variables are related to each other, as usually happens in macro applications, then the  $u_t$  terms of the error in the reduced model form are correlated between equations. Therefore we can not simply change one of the elements of  $u_t$  to see what happens due to the fact that these errors are correlated with each other. That is why we have

to identify octagonal shocks denoted with  $e_t$  base as shown in the equation of the dynamic environments [3].

$$[3] \quad B(L)y_t = e_t$$

where  $B(L)$  is an infinite number of polynomial delay.

Generalization of the VAR representation for  $k$  variables and  $p$  differences - noted VAR (p) - is written (Dorin Jula, 2007) in the following matrix form:

$$[4] \quad Y_t = A_0 + A_1 Y_{t-1} + A_2 Y_{t-2} + \dots + A_p Y_{t-p} + v_t$$

$$\text{where } Y_t = \begin{bmatrix} Y_{1,t} \\ Y_{2,t} \\ \vdots \\ Y_{k,t} \end{bmatrix}, \quad A_p = \begin{bmatrix} a_{1p}^1 & a_{1p}^2 & \dots & a_{1p}^k \\ a_{2p}^1 & a_{2p}^2 & \dots & a_{2p}^k \\ \vdots & \vdots & \ddots & \vdots \\ a_{kp}^1 & a_{kp}^2 & \dots & a_{kp}^k \end{bmatrix}; \quad A_0 = \begin{bmatrix} a_1^0 \\ a_2^0 \\ \vdots \\ a_k^0 \end{bmatrix};$$

$$v_t = \begin{bmatrix} v_{1,t} \\ v_{2,t} \\ \vdots \\ v_{k,t} \end{bmatrix}$$

Note  $\Sigma v = E(v_t v_t')$  variance-covariance matrix of errors. The matrix is unknown.

Model [4] can be written using the delay operator as follows:

$$[5] \quad (I - A_1 L - A_2 L^2 - \dots - A_p L^p) Y_t = A_0 + v_t,$$

or

$$[6] \quad A(L) Y_t = A_0 + v_t.$$

A VAR model is stationary if it satisfies the following three classic conditions:

$$E(Y_t) = \mu, \quad \forall t;$$

$$\text{Var}(Y_t) < \infty;$$

$$\text{Cov}(Y_t, Y_{t+k}) = E[(Y_t - \mu)(Y_{t+k} - \mu)'] = \Gamma_k, \quad \forall t.$$

Demonstrating (Hamilton JD, 1994 Times Series Analysis, Princeton University Press, p.259) that the the VAR (p) is stationary if the determinant polynomial is a defined from:

$$\det(I - A_1 z - A_2 z^2 - \dots - A_p z^p) = 0$$

has its roots outside the unit circle from the complex plane.

It is worth mentioning that in this case, the order of the variables is extremely important because it defines the direction of the causal relationship. Keep in mind that the parameters of the VAR process can not be estimated only from stationary time series. Therefore the first step in the estimation of this model is to test the stationarity of the used series.

In order to determine the p order of the VAR model (number of delays) can be used Akaike and Schwartz criteria. Order selection procedure consists in estimating the VAR representation of all VAR models for an order between 0 and h, where h is the maximum possible delay allowed by economic theory or data available, in which case the delay model for AIC and SC criteria values are minimum.

The data used in the model are monthly data, tested for stationarity, all stationary series under ADF test results, as shown in the subchapter regarding data analysis.

The variables used in constructing the model were: the changing exchange rate leu / euro as monthly average (IL\_EUROM) changing the volume on the interbank foreign exchange market (IOP\_INTB) real GDP change (in 2000 prices) - IPIB, the movement of ROL / USD as monthly average (IL\_USDM) changes in the volume of transactions in the foreign exchange market (ITRANZ) and changing labor income inflows (IVD).

The model expressed in mathematical form is shown below:

$$IL\_EUROM = C(1,1)*IL\_EUROM(-1) + C(1,2)*IOP\_INTB(-1) + C(1,3)*IPIB(-1) + C(1,4)*IL\_USDM(-3) + C(1,5)*ITRANZ(-1) + C(1,6)*IVD(-1) + C(1,7)$$

$$IOP\_INTB = C(2,1)*IL\_EUROM(-1) + C(2,2)*IOP\_INTB(-1) + C(2,3)*IPIB(-1) + C(2,4)*IL\_USDM(-3) + C(2,5)*ITRANZ(-1) + C(2,6)*IVD(-1) + C(2,7)$$

$$IPIB = C(3,1)*IL\_EUROM(-1) + C(3,2)*IOP\_INTB(-1) + C(3,3)*IPIB(-1) + C(3,4)*IL\_USDM(-3) + C(3,5)*ITRANZ(-1) + C(3,6)*IVD(-1) + C(3,7)$$

$$IL\_USDM(-2) = C(4,1)*IL\_EUROM(-1) + C(4,2)*IOP\_INTB(-1) + C(4,3)*IPIB(-1) + C(4,4)*IL\_USDM(-3) + C(4,5)*ITRANZ(-1) + C(4,6)*IVD(-1) + C(4,7)$$



$$\text{ITRANZ} = C(5,1)*\text{IL\_EUROM}(-1) + C(5,2)*\text{IOP\_INTB}(-1) + C(5,3)*\text{IPIB}(-1) + C(5,4)*\text{IL\_USDM}(-3) + C(5,5)*\text{ITRANZ}(-1) + C(5,6)*\text{IVD}(-1) + C(5,7)$$

$$\text{IVD} = C(6,1)*\text{IL\_EUROM}(-1) + C(6,2)*\text{IOP\_INTB}(-1) + C(6,3)*\text{IPIB}(-1) + C(6,4)*\text{IL\_USDM}(-3) + C(6,5)*\text{ITRANZ}(-1) + C(6,6)*\text{IVD}(-1) + C(6,7)$$

By substituting the coefficients in this mathematical model we obtain the following equations:

$$\begin{aligned} \text{IL\_EUROM} &= 0.3927900713*\text{IL\_EUROM}(-1) + 0.01478758142*\text{IOP\_INTB}(-1) \\ &+ 0.08638837716*\text{IPIB}(-1) + 0.104759141*\text{IL\_USDM}(-3) - \\ &0.02563998202*\text{ITRANZ}(-1) + 0.0003294992089*\text{IVD}(-1) + 0.4295703476 \end{aligned}$$

$$\begin{aligned} \text{IOP\_INTB} &= - 1.527320675*\text{IL\_EUROM}(-1) - 0.3408455535*\text{IOP\_INTB}(-1) - \\ &1.199976399*\text{IPIB}(-1) - 0.1426872273*\text{IL\_USDM}(-3) + \\ &0.06377543295*\text{ITRANZ}(-1) - 0.01915424372*\text{IVD}(-1) + 4.22722914 \end{aligned}$$

$$\begin{aligned} \text{IPIB} &= 0.1057233914*\text{IL\_EUROM}(-1) - 0.02077611032*\text{IOP\_INTB}(-1) - \\ &0.5083370287*\text{IPIB}(-1) - 0.06606650279*\text{IL\_USDM}(-3) + \\ &0.03784994565*\text{ITRANZ}(-1) - 0.000511455621*\text{IVD}(-1) + 1.456291896 \end{aligned}$$

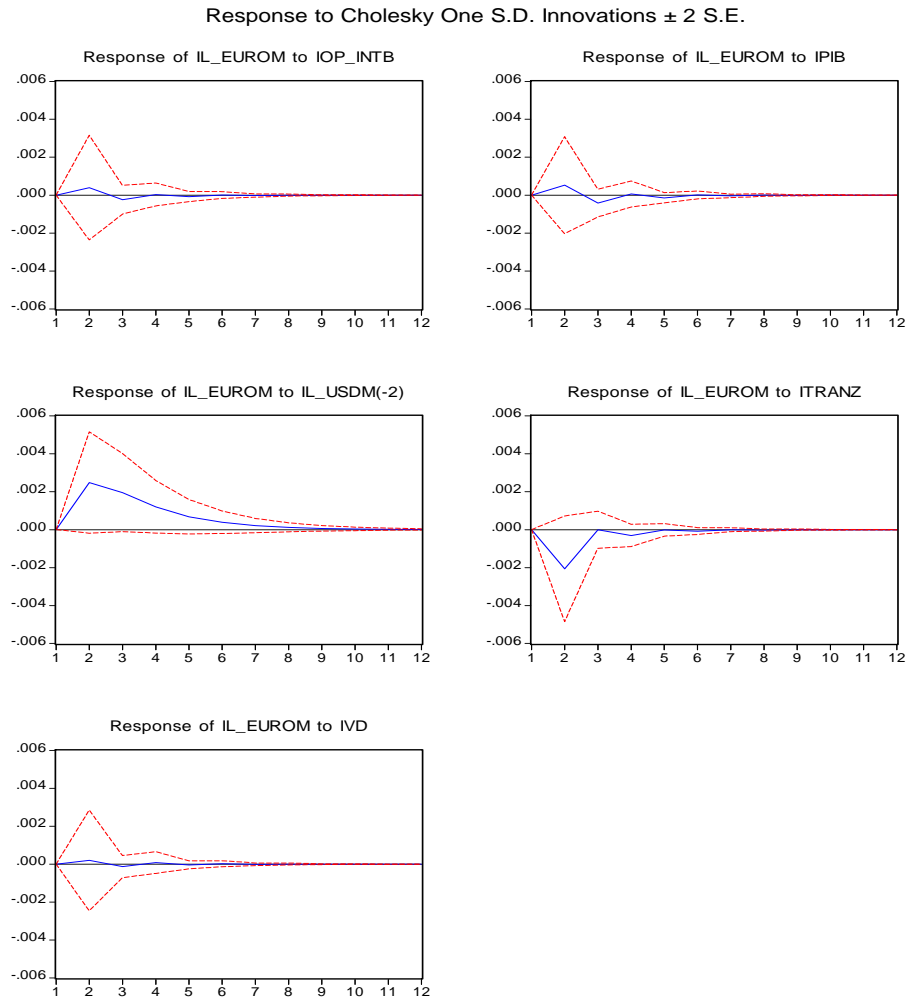
$$\begin{aligned} \text{IL\_USDM}(-2) &= 0.2988149888*\text{IL\_EUROM}(-1) - 0.02148283294*\text{IOP\_INTB}(-1) \\ &- 0.05996998681*\text{IPIB}(-1) + 0.3426095519*\text{IL\_USDM}(-3) + \\ &0.02295344488*\text{ITRANZ}(-1) - 0.0003496012203*\text{IVD}(-1) + 0.4192367127 \end{aligned}$$

$$\begin{aligned} \text{ITRANZ} &= - 1.080984231*\text{IL\_EUROM}(-1) - 0.08282775602*\text{IOP\_INTB}(-1) - \\ &1.027342986*\text{IPIB}(-1) - 0.2175749967*\text{IL\_USDM}(-3) - \\ &0.1378995831*\text{ITRANZ}(-1) - 0.005353531551*\text{IVD}(-1) + 3.599926184 \end{aligned}$$

$$\begin{aligned} \text{IVD} &= 1.394035242*\text{IL\_EUROM}(-1) - 0.1753299201*\text{IOP\_INTB}(-1) - \\ &2.404066354*\text{IPIB}(-1) - 0.2491517037*\text{IL\_USDM}(-3) - \\ &0.0214649769*\text{ITRANZ}(-1) - 0.3540135313*\text{IVD}(-1) + 3.001769915 \end{aligned}$$

The model satisfies the stability and the residues, the results of these tests. The advantage of this model is that it allows testing different reaction of exchange rate shocks through impulse function and variance decomposition. Based on the model and application of the impulse response functions as shown in Figure 2, responses of macroeconomic variables to a positive shock, unanticipated 1% in interbank operations (shock 1) in global supply (shock 2) in the leu/ dollar – (shock 3), in foreign exchange transactions (shock 4) and labor income entries (shock 5).

Figure 2  
The exchange rate reaction to a shock



Source: processed by the author

It is observed that an unexpected shock in the interbank operations and aggregate supply leads to a slight increase of 0,2% in the exchange rate leu / euro slightly more pronounced when it is followed by a decrease in aggregate supply and return to the previous level after a period of about 4 months.

The impact of a shock in the exchange rate leu / dollar is strong, considering how computing Romanian exchange market by the parity of euro /

dollar. Significant is also the fact that returning to the previous level occurs after a longer period, about after 8 months, comparing to the other situations.

It is though easily remarkable that a shock in the foreign exchange market trading volume may lead to a negative shock in the exchange rate leu / euro, with a continuing influence of 6 months before returning to the previous situation before the shock. It is obviously that if a speculative attack is development this evolution indicates the need for a vigorous action taken by the Central Bank to counter the lingering effect of a possible attack. Egert (2007) showed that the Central Bank interventions in the foreign exchange market sales in the Czech Republic, Croatia, Hungary, Romania and Slovakia have reversed the trend appreciation in the short term and that combined measures of central bank foreign exchange interventions (communication between the central bank and agencies and interest rate changes) lead to a lower exchange rate appreciation trend even after 60 days (about 2 months), lower than in Romania's case highlighted by extending the series until 2012.

Regarding the labor income inflows it is noted that the influence, although small, is positive followed by a slight decrease with a barrier effect after 6 months, which show-importance of remittances from Romanians abroad on exchange rate developments.

### **Conclusions**

The results show that due to the the opening of the Romanian economy, the exchange rate is still sensitive when it comes to shocks coming from capital inflows, internal demand and supply and the intensity of trade highlighted in large part of the volume of transactions in the foreign exchange market.

Currently, according to the dates, in Romania, the exchange rate channel is an important tool in taking over the national economy and international shocks. The loss of this channel by fixing the exchange rate of the European currency would make it difficult to accept such shocks to the labor market.

We can conclude that in Romania, the exchange rate channel is an important tool in taking shocks in national and international economy and the loss of this channel by fixing the exchange rate of the European currency would make it difficult to accept such shocks to the labor market and goods market.

Another important conclusions is that the exchange rate had an evolution that was within a band of  $\pm 15\%$ , (excepting a few months) which allows to determine the average exchange rate of the currency market and indicate a level of

equilibrium of the exchange rate, a conclusion supported by the study Anghel and others (2012). However, the massive depreciation of the national currency makes Romania not being able to fulfill the criterion on exchange rate stability as stipulated in the Maastricht criteria. The outputs of the fluctuation band during the international financial and economic crisis are justifying the decision to postpone the entry of Romania into eurozone.

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## **IMPACT OF ACTUAL CRISIS ON EU CONVERGENCE\***

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### **Abstract:**

*Estimating a set of concentration indicators for the period of actual crisis (emerged in 2008), we demonstrated a significant impact of it on convergence process in EU. However, the differences in matter of convergence emerge at the level of groups of countries. Thus, while in EU-10 (most recent acceded countries to EU) is manifesting a strong convergence, in EU-15 (old members of EU) a significant trend of divergence was demonstrated.*

**Keywords:** convergence, divergence, variation coefficient, European Union

### **1. Introduction**

Convergence theory has a long tradition showing in long-run the existence of an increasing trend during the general process economic development. Moreover, in EU history there is demonstrated a significant progress in matter of convergence. However, convergence is not linear; there are periods of accelerating or periods of braking, under the influence of a number of specific conditions.

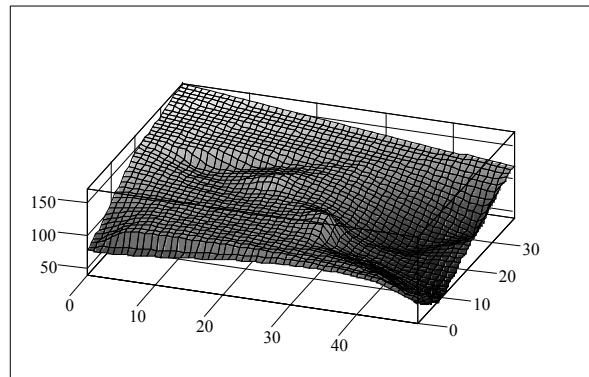
In line with Solow model, in EU real convergence refers explicitly to the income per inhabitant or to the level of productivity per employed person. Generally, as economic development is advancing (usually expressed by the GDP per capita growth), there is a general convergence process among countries. Empirical evidences throughout economic history have generally confirmed this process. In order to quantify the impact of actual crisis on convergence process in EU, in this study, we used a set of concentration indicators (coefficient of variation, Gini coefficient, etc.) at the level of EU-27 but also inside of two groups of countries, EU-10 and respectively EU-15.

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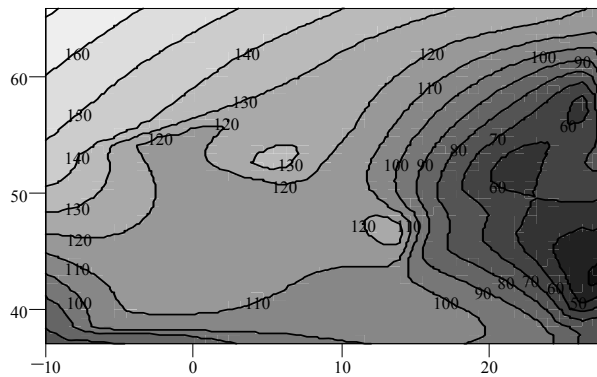
\* The paper presents some results of the research performed for the study “Modele de analiză multiscară integrată a sistemelor economice cu aplicații pentru estimarea performanței tranzițiilor”, Institute for Economic Forecasting, Romanian Academy, 2012.

### 2. Empirical evidences

Despite convergence programmes in EU, today still there are significant discrepancies among countries in matter of GDP per capita. As empirical evidence, we are presenting in Figure 1 the spatial distribution of GDP per capita in EU, in 2007 (before crisis), where LO means longitude (on its left side relating to the origin, 0 meridian, the Western longitude, as it is marked usually on geographical maps, was changed in negative values), LA – latitude, and y – GDP per inhabitant in purchasing power standard). The purchasing power standard, denoted as PPS, is an artificial currency unit (PPS is the technical term used by Eurostat for the common currency in which national accounts aggregates are expressed when adjusted for price level differences using PPPs; PPP being Purchasing power parity).



LO, LA , y%UE2007



LO, LA , y%UE2007

Source: Own calculations based on Eurostat data

### Figure 1. Spatial Distribution of GDP per capita in EU, in 2007

Aside the three-dimensional picture it is presented its attached “geodesic” map (or the so-called contour plot). In Figure 1 we excluded from the graphical representation two island states (Malta and Cyprus) and Luxembourg due to its high level of GDP per inhabitant (283.5% comparing to the EU average level).

On such EU stylized map, between longitude and latitude dimensions it was conserved an approximated proportion as it is in the actual geographical map. As in case of geographical map, light colours correspond to high lands and dark colours to abyssal zones.

Regarding dynamics for a longer period, GDP per inhabitant (in thousand PPS) at the level of EU-27 increased from 19.4 in 2000 to 24.1 in 2006 and to 25.4 in 2007. Due to global crisis, during the period 2008-2012 it was registered quasi-stagnation: 25.4 in 2008, 23.9 in 2009, 24.9 in 2010, 25.5 in 2011, and 25.5 (estimated) in 2012, as it is presented in Table 1. Among countries, only in Poland GDP per capita increased continuous after 2007.

**Table 1. GDP per inhabitant (in thousand PPS) in EU-27 countries, 2007-2012**

GEO/TIME	2007	2008	2009	2010	2011	2012
<b>EU27</b>	<b>25.393</b>	<b>25.426</b>	<b>23.878</b>	<b>24.875</b>	<b>25.544</b>	<b>25.487</b>
Belgium	28.969	28.953	27.674	29.094	29.796	29.454
Bulgaria	10.006	10.856	10.309	10.678	11.162	11.316
Czech Rep.	20.665	20.243	19.292	19.428	19.986	19.691
Denmark	30.742	31.189	28.891	30.972	31.425	31.193
Germany	29.178	29.323	27.474	29.359	30.688	30.868
Estonia	17.580	17.309	14.885	15.753	16.857	17.403
Ireland	36.931	33.308	29.960	31.142	31.852	32.054
Greece	23.405	24.097	23.052	22.754	21.395	20.061
Spain	26.303	26.054	24.371	24.553	24.822	24.452
France	28.355	28.166	26.769	27.797	28.451	28.306
Italy	26.235	26.309	24.484	24.738	25.451	25.356
Cyprus	24.030	25.819	24.618	25.229	25.656	24.394
Latvia	13.836	14.023	12.007	12.469	13.517	14.504
Lithuania	14.788	15.336	12.762	13.925	15.498	16.333
Luxembourg	70.871	72.792	64.616	68.722	71.458	69.895
Hungary	15.597	16.209	15.431	16.044	16.772	16.576
Malta	19.137	19.914	19.423	20.498	21.321	21.405

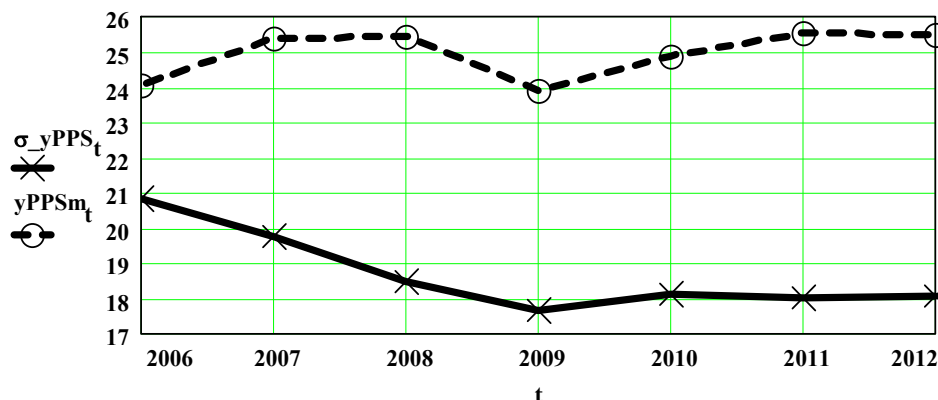
GEO/TIME	2007	2008	2009	2010	2011	2012
Netherlands	33.465	34.081	31.662	32.986	33.453	32.971
Austria	31.316	31.546	29.856	31.300	32.838	32.949
Poland	13.907	14.455	14.630	15.631	16.663	16.976
Portugal	19.648	19.497	18.783	19.551	19.448	18.879
Romania	10.363	11.712	11.041	11.361	12.284	12.404
Slovenia	22.153	22.582	20.649	20.845	21.356	20.811
Slovakia	16.959	18.183	17.045	17.941	18.448	18.776
Finland	29.479	29.909	26.981	28.055	29.003	28.806
Sweden	31.230	31.027	28.147	30.335	31.805	31.800
UK	29.680	28.703	26.595	27.962	27.893	27.649

Source: Eurostat; own estimations for 2012.

Based on using a set of concentration indicators, we tried to estimate the impact of crisis on convergence process in EU. Before crisis, for the period 2000-2007 there was a strong convergence trend demonstrated by a continuous decreasing in value of concentration indicators. For instance, the variation coefficient decreased from 26.2% in 2000 to 20.8% in 2006, and 19.8% in 2007. Up to 2009, despite of crisis reflected in diminishing average GDP per capita, the value of variation coefficient continued to go down to 18.5% in 2008 and to 17.7% in 2009. However, in 2010-2012, the prolonged crisis generated higher values of variation coefficient (around 18.1%), thus a stagnation of convergence process. In Figure 2, there are presented comparatively dynamics of variation coefficient,  $\sigma_y$  PPS (in %), and average level of GDP per capita,  $yPPSm$  (in thousand PPS).

Resuming the results of our analysis, we can conclude: for the period 2000-2009 at the EU-27 level it was a strong convergence process; but then, at least up to 2012 the main impact of crisis was to stop the convergence process.





Source: Eurostat; own estimations for 2012.

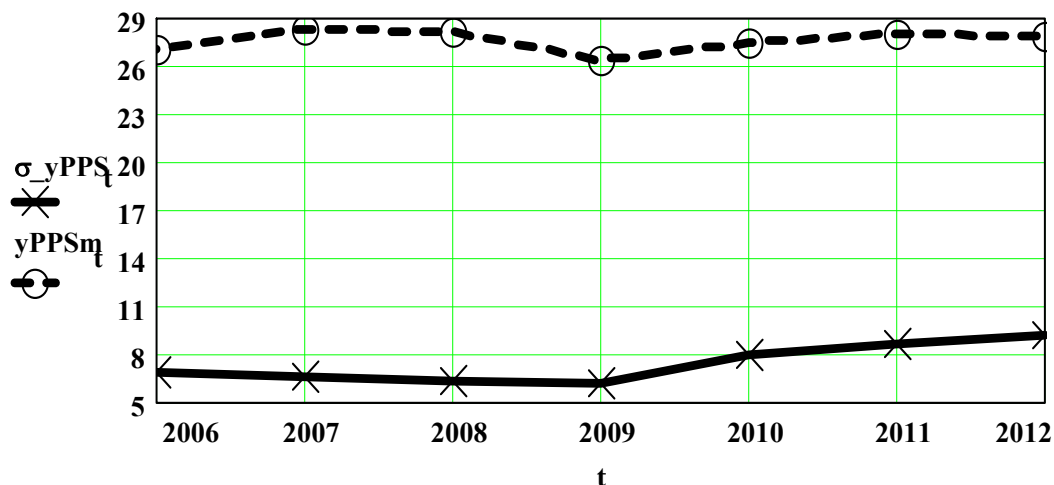
**Figure 2. Trends in GDP per capita and convergence in EU-27, 2006-2012**

### 3. Differences between groups of countries in matter of convergence

Usually EU countries (excluding the two island states, Cyprus and Malta) are separated into two groups: old EU countries, so-called EU-15 group (Austria, Belgium, Denmark, Germany, Greece, Finland, France, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden and UK) and former communist countries of Central and Eastern Europe, so-called EU-10 group (Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia).

Based on using the same set of concentration indicators, we tried to estimate the impact of crisis on convergence process inside EU-15 and respectively inside EU-10.

In case of EU-15, before crisis, there was a relative stagnation of convergence demonstrated by small changes in value of concentration indicators. For instance, the variation coefficient changed from 6.7% in 2000 to 6.8% in 2006, and 6.6% in 2007. Up to 2009, despite of crisis reflected in diminishing average GDP per capita (from 28,4 thousand PPS in 2007 to 26,4 in 2009) the value of variation coefficient continued to go down to 6.4% in 2008 and to 6.3% in 2009. However, in 2010-2012, the prolonged crisis generated higher values of variation coefficient (8.0%, in 2010, 8.7% in 2011, and 9.2% in 2012), thus a divergence process. In Figure 3, there are presented comparatively dynamics of variation coefficient,  $\sigma_{yPPS}$  (in %), and average level of GDP per capita,  $yPPSm$  (in thousand PPS) in case of EU-15.



Source: Eurostat; own estimations for 2012.

**Figure 3. Trends in GDP per capita and convergence in EU-15, 2006-2012**

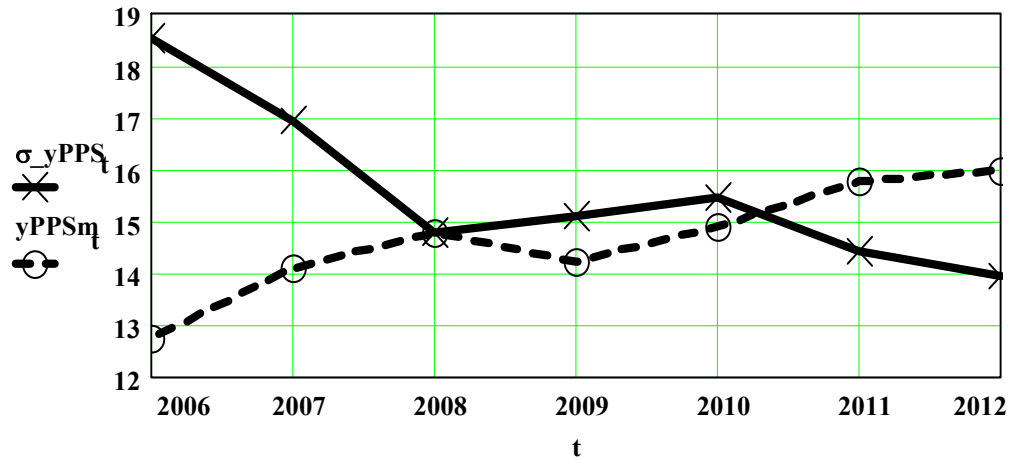
Resuming the results of our analysis, we can conclude: for the period 2000-2009 inside EU-15 it was a stagnation of convergence process; but then, at least up to 2012 the main impact of crisis was to a strong divergence.

Contrary, in case of EU-10, before crisis (emerging this time in 2009), there was a strong convergence demonstrated by significant decreasing in value of concentration indicators. For instance, the variation coefficient decreased from 25.6% in 2000 to 16.9% in 2007 and to 14.8% in 2008. Up to 2010, in accordance with crisis reflected in slow changes in average GDP per capita (from 14.8 thousand PPS in 2008 to 14.2 in 2009 and to 14.9 in 2010) the value of variation coefficient goes up to 15.1% in 2009 and to 15.5% in 2010. However, in 2011 and 2012, already attenuated crisis generated new decreases in values of variation coefficient (14.4%, in 2011 and 13.9% in 2012), thus convergence process was resumed.

In Figure 4, there are presented comparatively dynamics of variation coefficient,  $\sigma_{yPPSt}$  (in %), and average level of GDP per capita,  $yPPSm$  (in thousand PPS) in case of EU-10.

Resuming the results of our analysis for the whole period 2000-2012, we can conclude: for the period 2000-2008 inside EU-10 it was a strong convergence

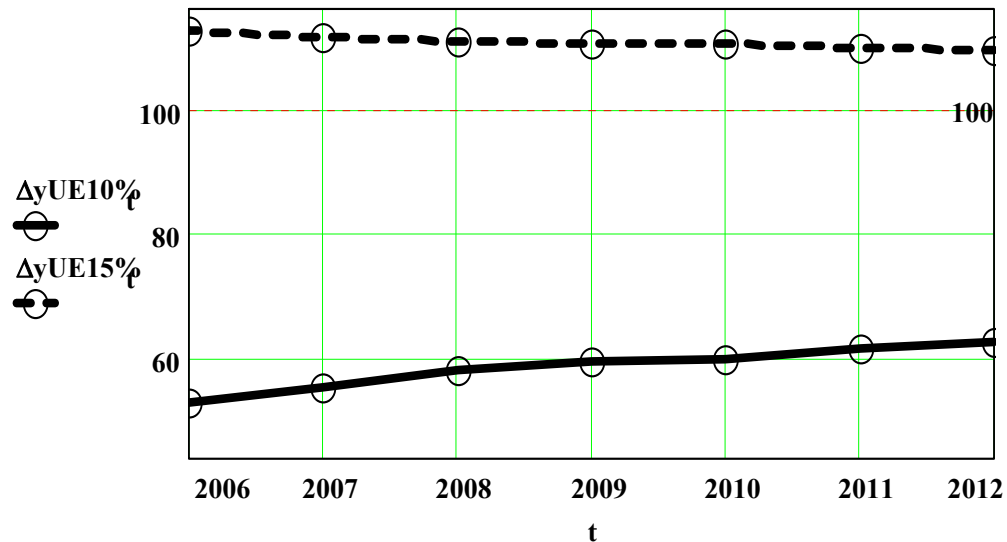
process, followed by stagnation in 2009-2010; after that, at least up to 2012, the convergence process was resumed.



Source: Eurostat; own estimations for 2012.

**Figure 4. Trends in GDP per capita and convergence in EU-10, 2006-2012**

Convergence between the two groups of countries in EU for the period 2006-2012 is reflected in Figure 5 (where  $\Delta yUE15\%$  and respectively  $\Delta yUE10\%$  are percentage deviations from the EU average (100) in the two groups of countries). We can see a continuous convergence, however remarking a significant brake during middle of the crisis (years 2009 and 2010).



Source: Eurostat; own estimations for 2012.

**Figure 5. Convergence between EU-10 and EU-15, 2006-2012**

Referring to the whole period 2000-2012, the convergence process advanced without interruption. It is reflected by dynamics of ratio between GDP per capita in EU-10 group and its average level in EU-27, namely from 44.5% in 2000 to 62.6% in 2012. In the same period GDP per capita in EU-15 related to its level in EU-27 decreased from 115.5% to 109.5% in 2012.

#### 4. Conclusions

Based on available data on GDP per inhabitant in EU, it was demonstrated an accentuated convergence process inside the EU-10 group, but a significant divergence process inside EU-15. The crisis seems to have an impact of slowing down the convergence process inside the two groups of EU countries. However, the analysis needs to be extended on a number of significant development indicators and further to estimate an aggregate (or composite) index of convergence.

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**”THE LOST GENERATION”.**  
**AN ANALYSIS ON THE EMPLOYABILITY OF HIGHER**  
**EDUCATION GRADUATES IN EUROPE.**  
**CASE STUDY: ROMANIA**

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***Abstract:***

*During the last years of the 20<sup>th</sup> century, the youth’s employment became a central subject for many economic and social studies and reports. The actual economic crisis has generated a lot of challenges for the youths on the labour market. Transition from school to work will be, at least on short term, difficult for the new generation, who will come into concurrence with persons who are already searching for a job. In the same time, employers will become more and more selective regarding new personal recruitment. The main idea of this study is that in the developed societies we may find two important aspects of the impact of crisis on youth’s employment. On one hand, there is an impact on the highly educated youths, who have a high education degree and are preparing to enter on the labour market. During economic recession they are facing unemployment, low wages, and low paid jobs. When economic growth is starting they are facing another problem: employers will be tempted to hire young graduates instead of those who have graduated years before, and who are facing again the risk of being unemployed. In these situations, young graduates in times of economic recessions are often called, in sociological literature, the lost generation.*

**Keywords:** *labour market, employment rate, economic recession, higher education graduates, lost generation*

**JEL Classification:** **E24, J21, J24**

**Introduction**

The new European context created after 1990, propelled to the forefront research, and education. The role of universities increase dramatically, thanks to their education, they become the main pillars of economic progress and society at

all levels. For best results, academia must become as light as possible and flexible feel, to integrate economic and social environment.

We live in an "era of speed" to change, and universities can keep up with these changes only by a large opening towards the outside, towards other stakeholders. In the current economic instability, young people - both men and women - are experiencing the emergence of a sense of insecurity about their own chances to begin "well" in the labor market. The global crisis, social reality facing all societies has brought to the fore the idea of fragility youth labor market.

According to the report called "*Global Employment Trends for Youths*" at the end of 2009, 81 million young people in the world had a job. In some societies in developing and even some developed societies, the impact that the crisis had on youth is felt mainly in the form of unemployment and a "hazard" social which is associated with short-term inactivity. The problem of youth inactivity for a period of time is considered to be a major departure from the labor market, many studies showing that the transition from school to work in a time of economic recession can leave its mark on generations of young people affected by this downturn.

*Why is the theme of insertion of the labour market?* For youth unemployment and the situations in which young people are forced to give up their search for a job or to work in poor conditions have a strong impact on the economy of a society, the families of these young people on their personal and professional development on society in general. The lack of a decent job, especially if it occurs during a short period of time after completion of an education institution may compromise a person's future prospects and its professional, not infrequently leads to social exclusion. Most young people who fail to find a job will not be able to earn an income, they will be assisted financially by their families. At the same time the company loses its investment in education results.

### **1. Insertion of graduates in the labour market. European statistics.**

One way of assessing the capacity of higher education institutions to transform students enrolled in the prospective qualified employees is to highlight the relationship between the rate of graduates and entry rate, resulting in what is called graduation rate / graduation.

Employability of these graduates of particular interest, given the evolving labor market: the level of education attained by the general population in recent decades progressed and new graduates reach currently in a labor market in competition with other graduates who have experience is stronger than ever. In



summary, the results of higher education, I suppose, more specifically, the number of graduates, the adjustment of recent graduates to labor market and their level of job satisfaction.

Transition from school to work and work integration of young people is a major problem, with a strong economic and social impact, being both an important measure of external efficiency of the education system.

Unfortunately, there are big differences in the levels of education in the development and implementation of monitoring systems graduates. The most advanced in this regard seems to be vocational training, where the expected results of the Phare initiative that has developed and applied a methodology for assessing the employability of TVET graduates (School of Arts and Crafts, year completing and high technology).

A recent survey among students in higher education shows that they want wider access to higher education and that universities should open up cooperation with the professional and lifelong education. For example, an overwhelming percentage (97%) of students believe it is important that students be given the knowledge and skills they need to succeed in the job market<sup>38</sup>.

In the end of 2008 year, the European Union, about a third of the population aged between 25 and 34 years, completed some form of higher education. This percentage has been increasing in almost all Bologna signatory countries. From a report by Eurostat, conducted in early 2009, it appears that most graduates, in 2008 were female<sup>39</sup>.

We can note that unemployment is always tied to age. Indeed, young people who have recently graduated from college (last two years) often have problems entering the labor market, and this is reflected by the high rate of unemployment compared to their counter-potential with more experience.

In about half the countries Bologna area, 20% or more of young employees who have a university degree are overqualified for the position they occupy (vertical mismatch - mismatch vertical - n.ns.). This inadequacy is more common in men than women, but the situation varies from country to country depending on the level of development of each company. Obtaining a diploma in services involves very often, engaging in a post that has no connection with the area in which the qualification. According to self-assessments carried out among

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<sup>38</sup> *Procesul de la Bologna – reforma universitatilor in urmatorul deceniu*, Bruxelles, aprilie 2009, p. 2, [www.europa.eu](http://www.europa.eu).

<sup>39</sup> *The Bologna Process in Higher education in Europe*, Eurostat, 2009, p. 115.

employees, between 3% and 10% of graduates were employed in a relevant diploma of graduation, but in a different domain than the studies (horizontal mismatch - mismatch Horizontal - n ns.)<sup>40</sup>.

The comparison made by experts of the European Union among the countries of our continent does not establish a clear link between the level of education (population aged 25 to 34 years) and the part of employees holding a post which is not in their theoretical skills. In fact, in many countries the Bologna process, almost a fifth of employees is facing a vertical disparity, regardless of the percentage of graduates in the same age<sup>41</sup>.

While youth is an exceptional resource for the renewal of any society often this potential is not sufficiently exploited, most often because of inefficiencies that exist in the labor market across Europe. According to reports made by the Statistical Office of the European Union - Eurostat, in 2000-2008, there was "deterioration" in terms of employment the employment of young people recorded simultaneously, a decrease of activity and growing unemployment among this population.

With regard to youth employment in Europe there is a difference between young people who have left the education system. The employment rate of young people aged between 15 and 29 years who have completed some form of higher education is much higher than that of young people who have left school without a diploma. Exceptions are some countries, such as Turkey, Greece, Italy, Portugal, Sweden and Denmark. Currently, young people leaving the education system without qualifications are not quite ready to have a job. In most cases, they left school, during school, course of study, as it is considered by specialists as providing minimal luggage required for their successful insertion in the labor market and participation in lifelong learning.

We can also speak of occupancy higher among men than in women. Even the unemployment rate varied according to sex: the young male is an increase in the unemployment rate, at all ages, whereas in women, it is decreasing.

Young people are the most important segment of the European population who occupy positions that are often poorly paid work carrying a lower level of skill. In most cases, graduates are obliged to refuse access to rights "social citizenship" that are guaranteed, so far the workers by the European social model. All these factors contribute to delay access to adult life that depends on independence from

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<sup>40</sup> *Ibidem*, p. 7.

<sup>41</sup> *Idem*.

the family home and the ability to make responsible choices, reported the desire to start a family and have children

After graduating from higher education, many young Europeans change their status in the labor market, even to the point of withdrawing from the labor market for a long period of time or to resume studies, before finding a job that provide career prospects and a certain stability, especially economics. But even among those young people who pass very quickly from school to work, there are cases where the employment contract is concluded for a limited period of time and employment prospects it offers are limited. If some poor young people who have jobs and / or temporary rapidly evolving towards a more stable job and promising, others fail to out of the precarious situation of under risk of poverty, unemployment, inactivity.

In a report analyzing the transition from school to work, entitled „*Des emplois pour les jeunes*”, conducted by the OECD, we identified two groups of young people who face many difficulties to stabilize the labor market after graduating forms of education: the youths 'labor market leftovers' and youth group "debut, but with an insert failed" in the labor market.

The first category includes those young people who have no diploma, no qualifications, who are agents of the immigration process belonging to minorities and / or living in neighborhoods / areas disadvantaged in rural and remote areas. The incidence of this group of people can be assessed based on the number of young people who have no job, have no education and are not included in some form of education.

In 2006, this group had a share of 12% of all young people aged between 15 and 24 years in Europe. Of these, three out of four young men outside the labor market, either because they were unemployed for more than a year, either because they were inactive and were not looking for a job. It is very important that these young people, "left out" to be assisted in the process of reticle of a job as soon as possible, once they have left the education system. It is also important that they be encouraged to attend training courses from which to obtain a particular qualification or a diploma recognized. Otherwise, they may remain in a prolonged idle, which causes a "sadness" persistent personal and social cost to society.

When it comes to youth employment in developed societies there are two important aspects of the economic crisis. There is an impact on the crisis on young highly educated, who have just completed their higher education and preparing to enter the labor market. During periods of "boom" economy they face fewer

problems at work. During periods of economic recession they are facing long-term unemployment, low-wage, and jobs in areas for which they are overqualified. When starting the economy recovers another problem arises that young people face: employers will be tempted to hire fresh graduates over those who graduated a few years before the latter was hit again by term unemployment or inactivity long. In light of this situation, generations of young people who are fresh graduates when a crisis starts are appointed in some studies, the phrase The Lost Generation (lost generation - n.ns.)<sup>42</sup>.

The second group of young people who are experiencing difficulties is the "junior youth labor market integration but trouble." They often possess a diploma, they need more time to stabilize and adjust to work, even during periods of economic growth. Also, turn the part that oscillates between temporary jobs, unemployment and periods of inactivity. This second group represents 20-30% of all young people in Europe, and is much larger in continental European countries and Japan. For this category of youth is necessary to adapt the general functioning of the labor market to make it so that they may quickly gain access to jobs that provide conditions and better career prospects in their careers.

In the last years of the twentieth century, the issue of youth employment in jobs back in the spotlight, the subject of numerous studies and expert reports made by economists and sociologists. Theme to employ young graduates of the companies concerned and strongly developed in western or northern European countries where employment situation was relatively (or apparent) good (such as, for example Sweden, Germany and the UK). This interest manifested throughout Europe, the desire to succeed escalating youth unemployment, resolving difficulties in the transition from school to the labor market and employment insecurity solving short term.

Please note that, at European level, numerous studies were conducted after which revealed that there is a close connection between youth labor market performance and level of education, income and education level of their parents. Moreover, the results represent a confirmation of sociological theories formulated by Raymond Boudon. It's about inequality of opportunity theory, according to which entry into professional groups of the upper layers of the status of the parents

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<sup>42</sup> Study „Lost generation”, published in *OECD Observer*, nr. 279, may 2010.

is that they put in unequal positions and prevent them to move to higher levels of the hierarchy<sup>43</sup>.

Research conducted in Europe confirms that children who come from families with higher income levels were three times more likely to have access to higher education. In sociological literature to describe this reality, we use the term intergenerational mobility<sup>44</sup>. The fact that financial and cultural level of the parents influence children's educational and professional success can be explained based on two important premises:

- in most European countries is facilitated access to higher education by the state but also by the student (through tuition fees). However, according to EurostudentSurvey, students are still financially dependent on their parents, the family contribution for part-time vacancies to complete their university studies<sup>45</sup>;
- depending on the quantity of information sources available at home, the frequency of discussions on culture, attending theaters or concert halls, children can have better or worse outcomes in education.

## **2. Youth employment in the Romania job market**

In Romania, according to a study by the National Institute of Statistics, conducted in 2009 and applied to young people aged 15-34 years, one year after the end of study, 33.6% of graduates who had sought a job were busy. Of university graduates had a job 60.9%, while the corresponding share of high school graduates was 35.0% and 14.6% for those with low education level, 39.6% of people living in urban areas had a job compared to only 26.3% for rural<sup>46</sup>. In early 2010, human resources specialists argue that the labor market in Romania is still not ready to absorb New Graduates, provided that they pay down their claims and demonstrate the basic knowledge required for the position. *"I don't think there is a surplus of young candidates at this time. The situation is less tragic in big cities, but it depends on how the economy will evolve in the coming months, as the following fall (2010) we will be hit by a pronounced reluctance of employers in*

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<sup>43</sup> Raymond Boudon, *Efecte perverse si ordine sociala*, Editura Renaissance, Bucuresti, 1998.

<sup>44</sup> Dumitru Otovescu, *Sociologie generala*, Editura Beladi, Craiova 2009.

<sup>45</sup> Eurostudent Survey 2005-2008: *Students and Economic Conditions of Student Life in Europe. Final Report*, 2008.

<sup>46</sup> Study „Integrarea tinerilor pe piata muncii”, published by National Institute of Statistics, Bucuresti, 2010.

*what concerns the recent graduates"* said Claudiu Ciortea, *sales&placement manager of Talent Stream.*

Moreover, some recruiters following scenario advancing: companies prefer hiring people with at least two years experience in entry-level positions at the expense of graduate because it comes on the same salary that I would give him and the student, but brings know-how (knowledge). In this way employers pay the same amount for an experienced employee, saving costs for training programs<sup>47</sup>.

In late 2009, a year after the end of study, 33.6% of graduates who had sought a job were busy. Among those who had graduated from university, more than half (60.9%) had managed to find a job, compared to only 35% of graduates with education. The social environment of residence has an influence on the professional success of an individual. For example, we can say that on 1 December 2009, 39.6% of urban residents had a job, compared with 26.3% for those who were living in rural areas.

In the second quarter of 2009, 5.923 million young people who have been ad-hoc, 58.8% lived in urban areas, 52.2% belonged to the age group 25-34 years and 50.2% were women. Of their total, 3.698 million young people aged 15-34 years (62.4% of target population module) were graduates of at least medium (secondary and higher education)<sup>48</sup>.

In a report by the National Institute of Statistics, in February 2010, stated that the 3198 had at least one significant job until the time of the study (82.0% of all young people who have left the national education system). Of these, 54.9% were men and 56.8% resided in urban areas. The first job, many young people were employed (75.6%) and worked full-time (92.1%). In most of the transition period between leaving school and starting work on the first significant job, 74.1% sought a job using active methods.

Direct contact with owners or those responsible for hiring (37.9%) and call the family, relatives and friends (37.5%) were the main search methods used by young people find a first significant job. Rate on the labor market of people aged 15-34 who have left education, no matter when, in the run-up to achieve complementary survey was 24.4% at 6 months of leaving education and 33.6% at year after cessation studies.

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<sup>47</sup> *Perdantii crizei – absolventii si tinerii fara experienta in munca*, [www.wall-street.ro](http://www.wall-street.ro)

<sup>48</sup> Report „Accesul tinerilor pe piata muncii”, published by National Institute of Statistics, Bucuresti, 2010

### 3. Conclusions:

It is very important to focus on graduate employability, especially now, in a society where labor market conditions are evolving rapidly, when the standard of living is becoming higher. Currently, new graduates reach, currently on a labor market where competition with other graduates who have experience is stronger than ever. Basically, the results of an education system can be observed, first by the number of graduates, but what is most important, easily adapting them to the requirements of the labor market which is undergoing change. Those wishing to enter active life encounter many difficulties, especially since in most societies - both developed and developing - they are a group of people at high risk. Coping with job loss in a period of economic recession and face a period of unemployment which automatically follows job loss is an intractable situation that puts deadlock on most workers. For most young people being unemployed at the beginning of the active life, there appears to have only a temporary effect on future career prospects and the social position. But for disadvantaged young people who have acquired basic knowledge, a product failure with their first labor market is often difficult to avoid and may expose them to stigmatization long.

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## **CORPORATE GOVERNANCE RELATION WITH CORPORATE SUSTAINABILITY**

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### ***Abstract:***

*Sustainability is targeted in this article to be integrated with corporate governance presenting its importance in business world not as obligation, but as a tool to be adopted. Economic challenges push companies to think twice before making decisions. Corporate governance is a success key for companies through improving performance and gain trust of investors serving business sustainability. Objectives direction has been changed from concentrating on shareholders' benefits to maintain sustainability in general perspective. Sustainable economy becomes main feature of business world needs requiring strong militarization of all companies' resources. That has been interrupted by climate change and financial crisis setting an urgent need from managements to adopt strongly sustainability and governance principles. Governance functions cannot be completed without sustainability strategy; both are affected by social, environmental, and economic aspects. That what article tries to present through collecting prime resources of leading companies in corporate governance and sustainability, and secondary data from academic researches supporting that by empirical study to prove that companies have been saved from collapsing by adopting corporate governance responsibility and sustainability principles during financial crisis.*

**Key words:** BAT, Corporate Governance, Corporate sustainability, Nokia, Sustainability.

**JEL classification:** G38, Q 56

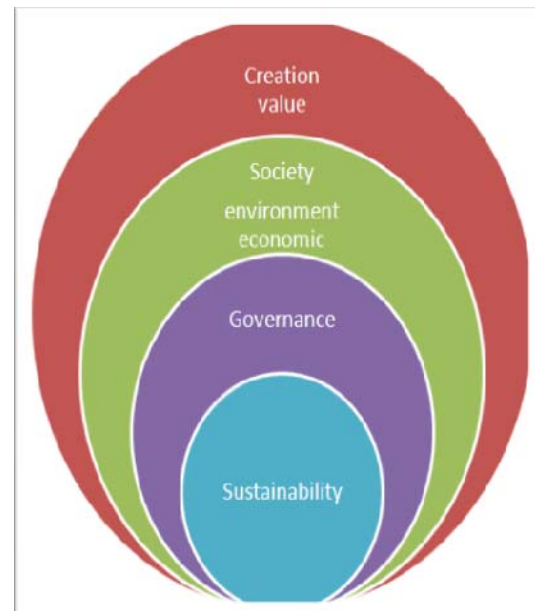
### **Introduction**

“Coming generations will never forget our current steps on this universal and earth”. Significantly, sempiternity is an important character of characteristics of economic body, in law's eyes is treated separately as legal entity to hold properties and liabilities. Consistently, each company has the intention to continue

its activities in long-term. That is directly related to its services and products with ensuring minimum damage of nature for its activities that means having sempiternity is strongly related with sustainability. Climate change has putted heavy duties on business world asking for huge investments in reducing pollution and keeping global warming in acceptable levels. These investments request integrating technologies and supply chain to highlight the need of redirecting companies' resources to serve sustainability. The reputation is an important asset for a company consist of corporate citizenship (56%) product quality (40%), and business fundamentals (34%) - Millennium Poll, *"It takes 20 years to build a reputation, and five minutes to ruin it"* (Warreb Buffet, Chairman, Berkshire Hathaway) That means good governance by monitoring board performance, sustainable business, corporate citizenship, corporate social responsibility and socially responsible investment, is integrated with sustainability. Corporate governance generations have been switched by time from focusing on legal issues and shareholders to engage with stakeholders and creating new accounting models to reach mature level like nowadays under title "Governance for Sustainability". Financial scandals starting with 2008 have led to mobilizing capital between demotic markets in order to determine economical opportunities for growth synchronous with adopting corporate governance as a management tool, and sustainability as a business strategy. Sustained and sustain refer to sustainability meaning prolonged, perpetual and steady (Collins Thesaurus; Oxford dictionary), corporate sustainability integrates with sustainable development (Jonathan P.Doh & Peter Tashman 2012).

### **Corporate governance and sustainability**

Nowadays, sustainability is treated seriously by companies to affect company culture and society. Significant sustainable properties are presented in social and environmental responsibilities and economic growth as well, and these properties are working in union. The main object of a company is profit, which cannot achieve without responsibilities. Therefore, sustainability presents the possibility of sustaining life-quality maintained for next generations through transferring responsibilities of sustaining life-quality between generations. That requires



continuously developing of sustainability. Sustainability definitions are related to used approach; by strategy approach sustainability is a strategy used to achieve company's objective, and currently by board approach is used to present the integration of society and environment in business (Hart; 1995, Shrivastava; 1996). Academically, corporate governance is defined as management and control system used by companies (Kavalir, 2005). Also governance is a process responds to stakeholders' interests (Neubauer & Demb, 1992). Thus, corporate governance is considered as a significant element of universal set of sustainability development. Sustainability and governance are terms of same pool, have generated in same period as consequences of different conflicts and scandals. In the middle of nineties (1990's) these terms were tied up in professional reports related to societal changes with granting perpetual by law caused by transferring corporations from financial activities to non-financial activities. The central part of strategy – sustainability is economic, society, environment and governance affecting daily operations to make business successful. That creates a value for a company especially for its shareholder “value creation” presents an important function of governance. Exchange relationship takes place between society, environment, economic and governance to affect general performance by individual performances of each one (Salo; 2008, Horvathova; 2010). As result, not any more companies can ignore social, economic and environmental impacts on decision process to maintain sustainability for all; company, society and environment.

### **Corporate Governance and Corporate Sustainability**

Aras and Crowther presented in their book “Developments in Corporate Governance and Responsibility, 2012” that sustainability is considered as a citizens' presenter in government, business and society. Many sustainability aspects might be reflecting social, economic and environmental sustainability with other options to be attached such as governance or management of supply-chain (Brundt-land report). Stakeholders' exercises are equally increased not because of their own interests, but it is an interest of sustainability in long-term. The world commission report on Environment and Development of United Nation introduced the concept of sustainability in eighty of last century (Brundt-land Report 1987). Sustainable development is described as a process of changes in resources development, investing direction, technologic orientation development, and changes of instruments and protecting ecosphere of human activities. This development can be in technological development and social activities

development essaying current needs of generation without damage the possibility of meeting the needs of next generations. Sustainable development is not limited by government regulations and policies, industrial activities are obviously having important role (World Commission Report). Companies are aimed by sustainable development in setting up their areas for economical, social and environmental performance. Also it creates a common social target for companies, civil organizations and governments to unitize their efforts in environmental and social sustainability with being aware that sustainable development alone does not have sense for companies. Arguments are increased dramatically when the corporate sustainability relationship with sustainable development takes place to leave the door open to big discussions about corporate social responsibilities and theories of stakeholder (Wilson 2003). Strategies and practices are covered through corporate sustainability helping to meet stakeholders' needs such as protection and supporting. In meantime, it increases human and natural resources requested in future. The World community sets up essential principles for sustainable development:

- ✓ Equity intergeneration: sustain natural resources for next generation.
- ✓ Sustainable use: using natural resources in a careful manner with minimum or without any damage for these resources.
- ✓ Equitable use or intergenerational equity: using natural resources cannot be on account on other counterpart and without harming others.
- ✓ Integration: impacting between economic actions and environmental aspects.

Corporate sustainability has been pointed as substituted theory to profit-maximization and traditional growth theories under conditions of brining benefits and justice to society and protection to environment. Significant attention on economic development has been occurred through recognizing coincident profitability and growth for a company to present new approach for long-term to increase covered share value possibilities, and risk managing comes from social, economic and environmental developments. Business practices are surrounded by environmental and social considerations meaning that corporate sustainability covers these practices and strategies to: help essaying stakeholders' needs and support them, increase and protect human and natural resources, in order to be used in future by next generations. Maximization shareholders' value is achieved

through leading business strategies and management models to control market's possibility for products and services sustainability, and to reduce cost and risk sustainability – minimizing cost and risk (Michael E. Porter & Clayton M. Christensen 2006). Corporate sustainability definitions: Kai Hockerts and Thomas Dyllick: corporate sustainability essays stakeholders' needs directly and / or indirectly without affecting essaying future stakeholders' needs. Australian government: corporate sustainability covers these practices and strategies help to essay stakeholders' needs today, although looking to ensure, protect and support humans and natural resources, which will be need it in future. Dow Jones defined: corporate sustainability is that approach used in business to create shareholders' value for long-term through covering opportunities and risk management deducing from social, economic and environmental changes. The Journal of Environmental Strategy defined: corporate sustainability is that capacity to assert economic successfulness under environmental and social responsibilities considerations. Accountability definition is that capacity of firm to continue activities with considering activities impacts on social and human capitals. Summarizing all of these definitions, we conclude that corporate sustainability tries to assimilate social and environmental dimensions into business functions. Practically, corporate sustainability is an approach goes to pragmatic issues presented in measuring performance on natural, social and environmental dimensions, and to integrate social and natural values in corporate accounting.

The comprehensive definition of corporate sustainability is that business approach creates long-term value for shareholders by sweeping up opportunities and risk management of social, economic and environmental developments (Dow Jones Sustainability Indexes). In meantime, corporate sustainability discerns important profitability and growth of a company, which requires engaging with social, economic and environmental developments. Evolutionarily, corporate social responsibility and corporate sustainability are different concepts; corporate social responsibility is these obligations pressure management to make decisions engaged with social policies or take in account desirable actions in term of values and objectives of society. Social responsibility must be equal with legal and economic responsibilities enforced by law (Rebekah Smith; Ethics & Social Responsibility of Management); companies are looking to satisfy other obligations relevant to community where they are operating. In 1980 new approach of corporate social responsibility obligates companies to have a group of stakeholders – stakeholder

approach instead of simple shareholder approach, where efficient performance of stakeholder is achieving the objectives of the company (David L. Engel, *An Approach to Corporate Social Responsibility*, 32 STAN. L. REV 1.1; 1979). Even though, corporate social responsibility and corporate sustainability are afforded from different source and different developing theoretical routes to meet at the end proofing recent CSR definitions of international institutions. Corporate Social Responsibility is transparent and open practices based on ethics values, employees' rights, environmental and communities. CSR is designed to transfer largely corporate social responsibility to shareholders and to society as well. Sustainable development concept is transferred from macro level to micro level practiced in company's proportion. Companies are main resource of socio-economic system and keys of implementing sustainability in society. Therefore, the frame work can be divided into two subjects; corporate social responsibility and corporate sustainability without ignoring their relationship, simply governance responsibility is applicable way for sustainability objectives (Sustainability Index 2008)

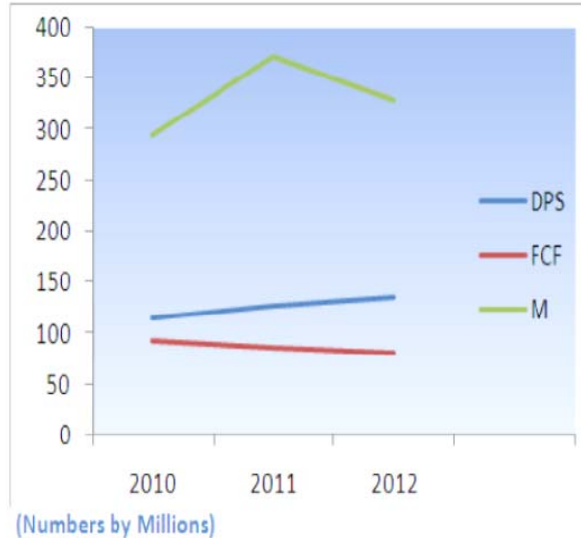
### **Empirical Study**

Briefly, this study tries to proof pervious theoretic part through selecting two companies from different industrial are British American Tobacco and Nokia.

ABT: Proofing the relationship between corporate governance and sustainability is presented through corporate social investment. Corporate citizen has long term invest in charitable activities and community. The approach of CSI – corporate social invest is endless and ABT works to assert excellent relationship with community to be translated by continuing social investing even it is decreased in numbers as result of changing in accounting standards and financial crisis impact, but it is still valuable for community (13.7 m £ in 2011 to be 11.6 M £ in 2012).

Corporate governance is independent factor, and profit per-share and equity changes are variable factors with considering other factors are fixed. The formula is:  **$f(G) = DPS + FCF + M$**

(G: corporate governance, DPS: profit per share, FCF: free cash-flow, M: market value of ordinary shares).



Dividends per share are continually increased in 2010 by 15%, 2011 by 11% and in 2012 by 7% that is generated by increasing operating profit and including adopting new strategies and developing governance application serving BAT goals to sustain earning per share and also to serve corporate sustainability. Free cash per share as ratio

of adjusting diluted EPS (%) are settable in the last three years in 2010 was 92% to be in 2011 by 86% (changed by -6.52%), in 2012 by 81% (changed by 5.81%). Market value of ordinary shares was 294.4 M in 2010, 370.4 M in 2011 (changed by +25.81) to be 328.3 M in 2012 (changed by -11.36).

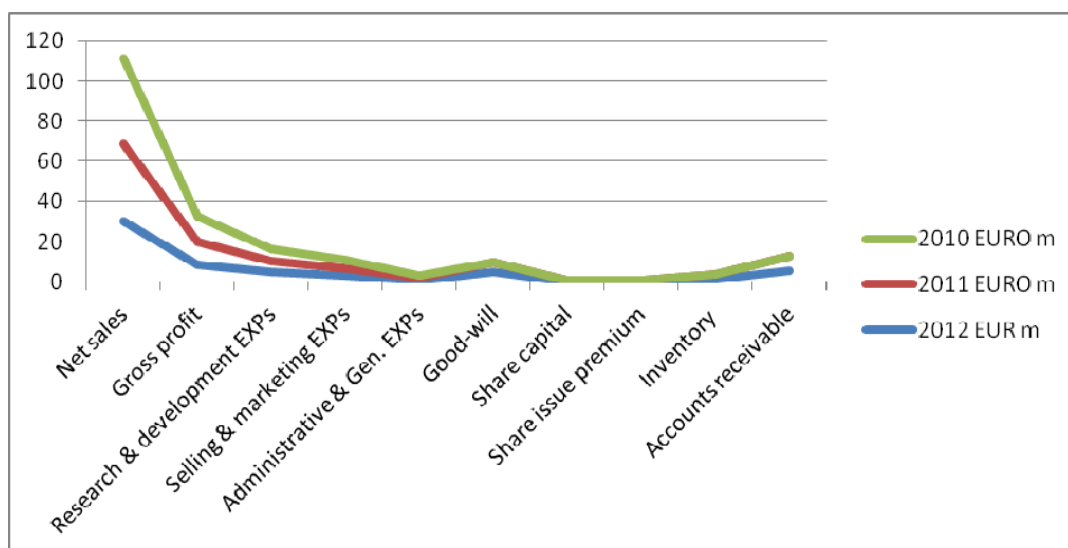
The logical relationship between dividends and free cash tells us that the changes in credit policy in 2011 and developing governance system of BAT are behind continuing profit growth even though fair-value adopting causes decreasing financial items. Soon, the net profit of ABT will keep increasing but free cash will sustain in average medium. Connecting that with ABT sustainability agenda we will find that future performance of ABT depends on stakeholders' feedback cooperating in share value creation for all stakeholders including shareholders. The agenda is that integration between delivering strategy and focusing on factors impacts: Harm reduction, Marketplace, Environment, supply chain and people and culture with full respect of OECD principles of corporate governance (1999, revised 2004). BAT is included in Europe Index and Dow Jones Sustainability World



for the next eleven years, and it was ranked 5th out 127 European corporations for including biodiversity impacts in its reports.

Nokia - annual report 2012:

Items	2012 EUR m	2011 EURO m	2010 EURO m
Net sales	30.176	38.659	42.446
Gross profit	8.390	11.359	12.990
Research & development EXPs	4.782	5.584	5.844
Selling & marketing EXPs	3.205	3.769	3.856
Administrative & Gen. EXPs	0.959	1.085	1.039
Good-will	4.876	4.838	
Share capital	246	246	
Share issue premium	446	362	
Inventory	1.538	2.330	
Accounts receivable	5.551	7.181	



The decreasing in net sales by 8% in 2010-2011 and by 21.94 in 2011-2012 reflects on net profits. That happened during adopting good governance practices reflecting on the number of shareholders which is increased through the last three



years by 0.03% in 2010-2011 and 0.24% in 2011-2012 that is great growth of telecom companies in financial crisis. There are changes in strategies as well shown in decreasing inventory account by 33.99% in 2012 and increasing accounts receivable by 22.69% in 2012. Good-well is increased by 0.78% in 2011-2012 that was without changes in share capital with increasing share issue premium by 23.20% in 2012 (56% is by corporate citizens). Decreasing in research and development expense, selling marketing expense and administrative and general expense become through adopting corporate governance application and adopting corporate social responsibility integrated with sustainability. That is meeting with Nokia sustainability report to make sustainable products incorporate with best practices with society and environment to improve lives of people.

### **Conclusion**

The current situation of business world requires from companies to adopt full set of corporate governance and sustainability. Before, tangible assets and financial reports were the main concern of a company to create value for its shareholders. Now intangible assets are higher than tangible assets as percent, and concentrating switches to non-financial reports and information affects bottom line. These changes come through implementing corporate governance and sustainability principles in a certain company. Moreover, that serves value creation of shareholders and for all stakeholders. The moral responsibilities of companies start to take place in business world through practicing corporate governance responsibilities and ensuring sustainability as a need for a company in first level. Corporate sustainability is affected by social and environment sustainability creating circle between each others.

Sustainability in dynamic environment needs effective corporate governance aiming companies to improve financial operations, to enjoy capital low-cost and to attract intelligent clients, suppliers, investors and partners. Corporate governance with stakeholder theories tries to solve conflicts of stakeholders' interests, not only internal issues are considered. Sustainability enforces companies to take more responsibility toward environment and community supporting corporate sustainability. Moreover corporate governance contents ethics codes and corporate responsibilities which are part in somehow of companies' vision and mission. Outputs quality of companies can be increased through this combine. Successful companies who implement even partially and indirectly corporate governance achieve financial stability and sustainability. Over

all ensure that sustainability is a strategic in long-term for companies requires a strong monitoring system presented in corporate governance. Sustainable activities of a company can reduce operating and non-operating expenses to provide competitive advantages during financial crisis. Increasing role of green party and non government organizations have been affected companies activities and strategies, but that is still not enough strong since all sustainable regulations does not have a strong provision to force countries and companies to adopt sustainability as business strategy. That is noticeable in United States of America and other industrial countries. Therefore, the experience of sustainability has different rates between countries asking concerned institutions to promote sustainability benefits and to increase related conferences to attract companies and to push them to act responsibly to all variables around the world like promoting Dow Jones Sustainability Index.

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## **INTERNAL AUDIT, RISK DETECTION TOOL FOR CONTEMPORARY CRISIS**

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### ***Abstract:***

*The current economic and financial crisis appeared without the anticipation of audit and control organizations, without objecting its manifestation or denouncing the practices that triggered it, that's why the limits and the potential were highlighted. To maximize the internal audit function, to expand the spectrum of risk management, to protect business and to deliver measurable values at world level, have been made a number of studies that have contributed by solving the fundamental causes of the emergence of the recession.*

*In this sense, our research aims to discover the extent in which the scope of internal audit has expanded and strengthened along the current economic and financial crisis manifested globally and based on the recent large national and international studies regarding the state function of internal audit and its role in detecting risks. At the same time we want to highlight the opportunities for value creation by internal audit as well as opportunities to improve risk management process leading to the implementation of corrective and constructive solutions.*

**Keywords:** internal audit, internal control, risk management, organization, economic and financial crisis.

**JEL Classification Codes: M4.**

### **Introduction**

The current economic and financial crisis, considered the worst economic crisis since the interwar period 1929-1933, was initiated in autumn 2008 on the

background of major disturbances occurred in the banking area. In the context of mortgage market collapse the entire financial sector has suffered a number of situations generating in chain: inflation, bank failures, a gradual slowdown in economic activity, tighter credit conditions, reduced consumption, lower investment. These unwanted manifestations of financial crisis led to the creation of an uncertainty framework for business continuity that has undermined some organizations activity, especially for business operations. Since risks cannot be avoided, any organization, regardless of its specific activities developed, must be conducted so that to insure against risk by undertaking all of those necessary measures in order to achieve that level of risk which the organization is willing to accept [Vintilescu Belciu A. et all, 2010].

About the effects generated by the current economic and financial crisis affecting the global economy have been raised a number of questions relating to the governance, risk management, as well as the control in some organizations. Thus, knowing the significant progress made in governance, development of new control techniques, extend the spectrum of risk management as well as the strengthening of internal audit, there was arisen a double question:

1. *if the organizations have implemented adequate systems of internal control, risk management and internal audit, and if the organizations' internal control, risk management and internal audit have made known their diagnoses;*

2. *if management have made appropriate recommendations.*

The answers, of course, were given on both sides of the parties involved, and a lot of studies recalled that organizations are not checked only by persons entitled thereto within organizations but are subject to all sorts of controls in the external environment that could report any non-compliances. We note, however, as a general conclusion on the background problems of the global financial and economic crisis, that a strong internal control and internal audit performance can be seen as a solution to streamline companies.

### **I. New challenges for internal audit profession**

Willing to support managers, the international specialized bodies have decided to use their own experiences to guide and advise governing bodies highlighting the advantages that internal audit can provide in assuming their responsibilities. They also have proceeded to define a framework for the relationship between internal audit and the organizations governing bodies. These

steps were helping organizations to provide, with the same care, in the moment of a new added-value creation as well as in the case where there is a risk of damaging the already made added-value, by: 1) taking actions for identification and risk assessment; 2) by a thorough analysis of their control; 3) by seeking and implementing constructive solutions and remedies recommended by the internal audit.

In this aim, at the end of 2009, the PricewaterhouseCoopers Global State of the Internal Audit Profession conducted a study involving more than 2,000 people, CFO and internal audit committee members of 55 countries with the following main objective [Sima, 2010]: an overview of the internal audit profession; highlighting the deficiencies and the most important changing trends in the audit function; providing the relevant data for organizations in order to facilitate comparisons between processes and audit procedures; setting a reference' threshold necessary to identify continuous changes that occur in the internal audit function. In this study, people participating have agreed that to strengthen its position and support the requirements of all the responsible factors involved, internal audit must know a significant development and should deliver more value.

In this respect, it is necessary that the current role of the internal audit function to be expanded and also to be maintained at a high level of performance. But to achieve these objectives, considered to be a real challenge, internal auditors are required to continually develop skills and knowledge with a continually improvement. Following this study, it was launched a new stage of development of the internal audit entitled "Internal Audit 2.0", concept based on best practices, on the expectations for internal audit activity which must be ready at all times to practice and improve a higher level of standards through alignment, collaboration and acceleration. The study also aimed to providing concrete actions to monitor and manage risk and actions to mitigation critical risks.

To streamline and maximize the internal audit function, protecting business and delivering measurable value, the new audit concept introduced is considering implementing the following key attributes [PwC, 2010]: *aligning operational business processes, focusing on risks, management of all beneficiaries, efficiency in terms of cost, model of human resource management, customer-oriented culture, quality and innovation, an adequate technology.*

It was also identified three critical areas to which the internal audit departments should turn its attention to improve, namely: *risks and critical issues, values align with the expectations of internal audit stakeholders and a staff*

*correlation with the values promoted.* These eight attributes in conjunction with the three risk areas identified are regarded as elements for building up a new standard [PwC, 2012]. These, however, are essentially conditioned by an audit plan constructed as part of a comprehensive and risk top-down organization assessment, taking into account the entire system of risk management, including operations and joint defense lines.

Therefore, given the new expectations and requirements of all interested parties, the internal audit must be constantly changing and has to redefine its role by expanding its competences. In parallel with this approach, the internal audit must take a leadership role and thus a powerful tool for decision while helping to align the organization's strategy on the identification, control and risk management.

## **II. The process of special risks identification for the present economical and financial crisis by the internal audit**

This economic and financial crisis has highlighted the need to implement the recommendations made by internal audit as a result of the findings of the auditors. Traditionally, the internal audit has a first responsibility to express an independent opinion on the financial statements of the organization while giving an assurance to all stakeholders (i.e.: shareholders, customers, suppliers, employees, banks) that they are sincere and gives a true and fair picture. In the current context, however, this approach is a precaution necessary but not sufficient.

In this regard, the National Company of Statutory Auditors (CNCC, abbreviation from French language) established in France, have provided the first track in this direction by publishing in 2008 a set of findings entitled "*crisis package*". The study conducted by CNCC is to highlight areas that require special attention from the audit as a consequence of economic - financial crisis. It was found that the first step the internal audit need to do in financial audit would consist of an upstream entity knowledge in order to evaluate in advance the areas where risks may arise for the auditor to focus on thereof.

It was also agreed that there can be no general methodology to address risk as not all organizations were affected by the crisis in the same way or with the same magnitude or intensity. The internal audit can even consider that for each entity audited accounts could have a certain kind of risk approach, adapted to the specific entity as a whole. However, globally, have been identified two classes of specific risks for the economical and financial crisis, namely:



1. *the first class* corresponds to the risk of further work and shall be based on the evaluation of the likelihood of continuation of activities grouped into three categories: *a criteria based on operations, a criteria based on financial statements and a quantifiable criteria based on data published in exceptional circumstances*

2. *the second class* corresponds to the risk of overstating the accounting result based on two aspects: *an increased risk of accounting irregularities and a measurement difficulties due to future uncertainties.*

Corresponding to the first class of risks, each of the three criteria for further work should provide warning signals to the auditor that there is a risk of liquidation of the organization' activity. Depending on the signals received, the auditor will assess more carefully exposed areas and its opinion will have a fundamental role to the entity.

The second class is related to overestimation of risk accounting result, the result will certainly overstated the company more attractive to stakeholders and that some managers to preserve the company are tempted to overstate the accounting. Suppliers will be more motivated to work with a company that generates profits, solvent and provides a guarantee of payment. To detect these irregularities internal auditors need to check more carefully any accounting irregularities regarding overstatement of assets and/or understatement of liabilities. On the one hand, the auditor will check if significant assets are recorded in the accounts in accordance with objective reality on the other hand will ensure that no element of liability was omitted from the accounting records.

The internal auditors will also consider checking the cash register and bank statements in order to detect possible non-compliance, based on the internal control procedures [Vasile, 2011]. There are, also, other forms of misconducting behavior, that may occur during the period of the financial crisis, as those referring to the exercise separation.

For example, when considering contracting an important service, which takes place in the period between the end of year N and the beginning of year (N +1), it is possible to assign costs only in the year (N +1) so that not to reduce too much profit of year N. Therefore, the auditor will need to be more vigilant about the composition and determining the result in the accounting balance sheet. The auditors will also dwell on how the provisioning judgment was implemented and due to fluctuations in financial markets they will pay more attention also to the assessment of the value for the financial instruments and /or the equity securities.

Therefore, the economic crisis creates favorable conditions for widening existing risks and the other risks arised, therefore this is making more difficult to assess the regularity and sincerity reflected in the accounts.

But, based on a series of principles and functions which outlines the internal auditors' courses of action, whether it is financial audit, system audit or performance system audit, by analyzing the risks, the auditor should become increasingly more a management consultant assessing financial management and control systems and providing solutions to improve all of these systems.

### **III.The new COSO revisions**

Given the problems of the current economic and financial crisis the Committee of Sponsoring Organizations of the Treadway Commission - COSO considered appropriate to review the internal control referential aiming to strengthen its concepts and ways to operating and to bring any improvements as well. Thus, as a continuation of this approach, in December 2011 the Committee of Sponsoring Organizations of the Treadway Commission (COSO) released a new version of the internal control referential in order to initiate a debate on this issue contributing to the final version of the referential. The new referential [PwC, 2012] has been prepared by PricewaterhouseCoopers (PwC) – one of the world largest professional in consulting and auditing services company, part of the four largest auditing firms in the world called the Big Four, Table 1. Its development took into account the significant changes in the economic environment, governance and organization as well as the new risks that have emerged after the first version in 1992.

**Table 1:** The new referential

<b>The new referential</b>	
<i>Kept from the old referential</i>	<i>Changes brought by the new referential</i>
Internal control DEFINITION	A more precisely description of the ways for putting in effects for the five components of the internal control (i.e.: governance, risk response) based on the internal control principles.
The five internal control components: 1.control environment 2.risk assesment 3.controlling activities 4.informing and communicating activities 5.leading activities	Taking into consideration changes arised into the organizations functioning ways after the first COSO version (i.e.: development of informatique instruments, subcontracting activities).
Criteria used for internal control system efficacy assesment	A more clearly explanation of the internal control concept
Professional judgement used for internal control system assesment	Extension of the internal control application area with new reglementations and rules

**Source:** processed by the author

Even if the new referential is with not so fundamental changes in the internal control structure, by its reviewing, the Committee of Sponsoring Organizations of the Treadway Commission (COSO) has achieved the objectives for which it was initiated this endeavor.

#### **IV.Risk management in the new global economic perspective and the internal audit involvement for risk management process**

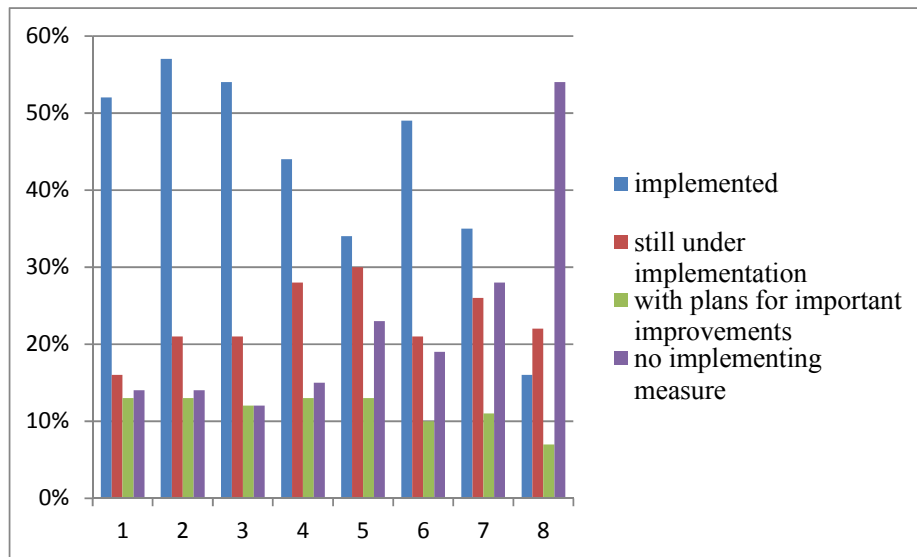
The economic and financial crisis led to a more careful assessment of risk management practices adopted by organizations. There are many voices that put current economic and financial crisis on account of risk management standards considering them as inadequate. In this context, managers from all economic sectors desire to improve the risk management system to have a profitable business [Bumbacea D., 2012]. According to the concept of some specialists, risk management process must be reviewed with a dynamic approach, aiming organizations to be able to achieve the objectives settled and to assure the highest level security of mitigating risk. On the current crisis can be drawn a number of clear lessons for measuring and managing risk. It emphasizes the need to develop more powerful tools for risk assessment and more sophisticated information systems to implement information exchange, for more efficient communication, for a new governance practices adoption and for improving earnings policies.

Therefore, it is necessary to use the best instrument for an accurately risk measuring, able to identify extreme events and to mitigate the cyclical trend occurrence of risks. Regarding the internal audit involvement into the risk management process in the current global crisis some specialists found necessary to be focus on the following aspects [Sima A., 2010]:

1. defining the general risk management and compliance policy;
2. establishing common rules and definitions for risk management;
3. development of a common methodologies for risk assessment;
4. revealing the assurance sources for the most important (key) risks;
5. balancing the risk assessment and the risk functions into the compliance behavior of each organization;
6. integration of the internal audit plans with the compliance audit;
7. integration of compliance reporting with the risk reporting activity;
8. a software implementation for risk and compliance functions.

Based on these issues evidencing, in order to know the state of their implementation, in 2009 PricewaterhouseCoopers conducted a study involving a total of 2021 people from 55 countries. Study revealed the following trends:

**Figure 1.** Stage for coordination and implementation of risk and compliance functions



Source: processed by author

From the above analysis, we can see that most audit functions have been planned or implemented, except software implementation risk and compliance function. This means that organizations should pay more attention to this issue by adopting advanced information systems to assist organizations to better assess the risks and identify their vulnerabilities.

### **Conclusions**

The current global crisis has highlighted a number of shortcomings in the internal audit and risk management components of internal control. It also creates an ideal context for the development of a creative accounting that reflects a fictive return, ignoring the principles of neutrality, ethics and fairness. In order to counter and reduce these practices there were made a number of studies and have been identified some specific risks to the economic and financial crisis. However, the undertaken concrete actions of the studies aimed providing critical risk management orientation and monitoring the risks in order to make mitigation actions. To streamline and maximize the internal audit function, protecting business and delivering measurable value, was introduced a new concept of internal audit - "**Internal Audit 2.0**" and the shaping of a new standard.

In conclusion, given the new expectations and requirements of all interested persons, i.e.: stakeholders, the internal audit should reposition itself as a key factor in an environment with multiple gaps, in areas such as process compliance, process management or financial risk. In parallel with this approach, internal audit must take a leadership role and thus a powerful tool for decision while helping to align the organization's strategy on the identification, control and risk management.

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## **CHANGES IN THE HOUSEHOLDS CONSUMPTION PATTERNS IN ROMANIA AND THE EU COUNTRIES - HOW MUCH IMPACT OF THE GLOBAL ECONOMIC CRISIS? [1]**

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### **Abstract:**

*The financial crisis more intensely felt in Romania since the second half of 2008, has triggered economic phenomena and processes that affected the economic progress and the living standard of population. The daily lifestyle during the crisis was limited to households concern to satisfy at least the current needs – for food and non-food products - typical for subsistence consumption. The paper presents a brief analysis of the evolution of consumption expenditure of households (the main manifestation of consumption) in the European Union and Romania in 2003-2011, also attempting to reveal the adjustments induced by the crisis. The results show that the final total consumption expenditure of population grew slowly but continuously in 2003-2011 in the EU (with a decrease in 2009 and 2010, during the crisis), but Romania has registered a significant increase in total consumption expenditure in relation to the European average, similar to that recorded by other new Member States. However, the per capita levels and the shares of different categories of consumption expenditure place Romania on the lowest or second lowest position in the EU, indicating the presence of a rather "quasi-subsistence consumption" behavior, characteristic of countries with lower development level and very sensitive to the adverse effects of economic crises and recessions.*

**Keywords:** households' consumption, consumption expenditure, categories of consumption expenditure, consumption patterns

**JEL Classification:** O52, P46, P52

### **Introduction**

The financial crisis more intensely felt in Romania since the second half of 2008, has triggered economic phenomena and processes that affected the economic progress. Performance declines recorded by the Romanian economy in recent years have been strongly felt by the population. Continuous erosion of living standards led to the transformation of consumption from an economic variable, component of the complex market mechanism, into a manner of expression - typical for most population – of a noneconomic behavior. Daily lifestyle during the crisis is limited to households concern to satisfy at least the current needs – for food and non-food products - typical for subsistence consumption.

The increasingly precarious size and quality of consumption generated by limited purchasing power determined by the acquisition of current consumption goods and payment of utilities related to housing conditions, necessary to ensure the minimum health needs and to maintain the capacity to work - restrict access to insolvent social needs, to health, education, culture and recreation, etc. These also show, in our opinion, the transition from an economy of scarcity to an economy with low demand, the combined effect of the liberalization of prices and recession, with negative impact on the development prospects of a sustainable economy.

In the following, we present a brief analysis of the evolution of consumption expenditure of households (the main manifestation of consumption) in the European Union and Romania between 2003-2011 (2010 for Bulgaria and Romania), trying to reveal the adjustments induced by the crisis.

### **Evolution of consumption expenditure of households in the European Union**

In the European Union (27 countries), the *final total consumption expenditure of population* grew slowly, but continuously, during the period 2003 to 2011 (with a decrease in 2009 and 2010), by 24.5% over the period. Romania has registered a significant increase in total consumption expenditure in relation to the EU average (with 125.6% in 2010 as compared to 2003) but similar to that recorded by other new member states (Slovakia - increase by 135.1% in 2011 as compared to 2003, Latvia - up by 104.1%). *The developed EU economies recorded overall growth rates pretty close to the average.* The categories of expenditure developments, however, were different.

Expenditure on *food and non-alcoholic drinks* revealed an increase by 22.7% over the period 2003-2011, lower than the total expenditure and a decrease throughout the period 2009 and 2010. Romania experienced an increase by 75.8%



in this category of spending, one of the highest in the EU (the highest being recorded by Slovakia, by 93.6%, and the lowest by the UK, by only 7.1%). Expenditure on *alcoholic beverages and tobacco* have also registered in the EU a growth slightly lower than total spending (by 20.8% over the analyzed period), but the differences between the Member States were very high, ranging from 269.4% in Bulgaria and only 3% in the United Kingdom. Generally, the new Member States recorded a global growth much higher than the rest of the EU, and Romania was no exception, registering a growth by 145.7%.

Expenditure on *clothing and footwear* rose slightly, by only 11.9% (and decreased from 2008 onwards), and some countries have registered substantial reductions (Greece by 27.3%, Malta by 6%, Hungary by 4% and Ireland by 1.4%). Romania recorded the highest overall growth over the whole period, by 135.6%, followed by Slovakia with 125.5% and Lithuania with 97.9%. Costs for *housing, water, electricity, gas and other fuels* experienced a continuous increase at EU level, without a period of decline during the crisis (by 38.8%). The level of spending has increased more also in the new Member States (in Slovakia by 149.1%, in Latvia by 135.7%, in Romania by 122.5%, in the Czech Republic by 107.2%), while in the more developed economies the increases were more attenuated (in Germany by only 20.6%). Expenditures on *furniture and household equipment and housekeeping* showed a reduced growth in the EU over the period (by only 11.6%), with a period of slowdown in 2009 and 2010. In this case, the differences between the Member States were very high, ranging from increases by 317.8% in Bulgaria, by 182.7% in Slovakia, by 139.9% in Romania and by 110.5% in Latvia to decreases by 21.7% in Ireland, by 15.1% in the UK, by 11.5% in Hungary and by 10% in Greece.

*Health expenditures* have also registered a sustained growth in the EU throughout the analyzed period, without a slowdown interval. Also, differences between Member States were very high, ranging from increases by 345.1% in Romania, by 265.1% in Slovakia, by 176.7% in the Czech Republic and by 99.3% in Bulgaria to decline by 37.2% in the Netherlands. *Transport costs* have been increasing at EU level close to the total consumption expenditure (by 22.9%), with a relative slowdown in 2009 and 2010. The largest increases were recorded by Latvia (by 188.9%), Romania (by 113.8%) and Slovakia (by 102.1%) and the lowest by the UK (basically stagnation at 2003 level) and Cyprus (by 9.6%). *Communication costs* have increased close to the EU average in the period (by 19.6%, with slowdown in 2009), but large differences between Member States

were noticed, ranging from increase by 361.2% in Romania's case, by 162.3% in Greece (with significant slowdown in the last two years) and by 130.6% in Slovakia to decrease by 6.7% in Malta, by 4.6% in Finland, by 2.9% in Austria and by 1.1% in Belgium.

Expenditures on *recreation and culture* in the EU experienced a relatively slow growth in the period 2003-2011 (by 16.4%), with slowdown in 2009-2010. In this case, the highest increases were also recorded in some new Member States (Bulgaria, by 218.6%, Romania, by 186.4% and Slovakia, by 162.8%), while in countries such as the United Kingdom and Greece reductions were recorded (by 3.6% and 0.9%, respectively). *Education expenditure* registered a sustained growth in the EU (by 31.3%), but the differences between Member States were also high, ranging up from increases by 249.4% in Lithuania, by 245.6% in Slovakia and by 118.5% in the Czech Republic to decrease by 15.3% in Estonia. Romania registered a large increase until 2008 (by 358.4% as compared to 2003) and a marked slowdown in 2009 and 2010 (at the end of period the increase being 128.8%).

*Hotels and restaurants expenditures* recorded in the entire European Union a growth similar to the growth in total consumption expenditure over the analyzed period (by 22.9%) and a period of slowdown in 2008-2010. The highest growth was recorded by Latvia (by 140.5%), while the UK saw a decrease by 1.3%. Romania registered a large increase until 2008 (by 243.3% as compared to 2003), followed by a slowdown in 2010 (by 91.2% as compared to the same year). Finally, *spending on various goods and services* registered growth at EU close to that of the total consumption expenditure (by 21.7%) and slowdown in 2008-2010. The largest increases were also recorded by some new Member States (Romania, by 275%, Slovakia by 198%, Bulgaria by 175.2%, Latvia, and Lithuania by 146.9% and 119.6%), while countries such as the United Kingdom or Ireland recorded reductions (by 5.6% and 6.9%, respectively).

In relation to the "average" of the EU's *total consumption expenditure per capita*, all the new Member States, except for Cyprus, registered low or very low levels. Romania ranks second lowest, with only 25.9% of the EU level in 2010 (down from the peak of 29.3% in 2008) followed only by Bulgaria (23% of the EU level 2010) and after Hungary (with 37.8% of the EU level in 2011).

By *categories of expenditure per capita*, only for the *expenditure on food and non-alcoholic beverages* Romania recorded a slightly higher level (55.6% of the EU level in 2010, but down from 66.7% in 2008) and close to that of other

countries (Hungary, the Czech Republic, Poland, Latvia, Slovakia). The highest levels in relation to the EU were recorded in Luxembourg (144.4%) and Denmark (133.3%) and the lowest in Bulgaria (33.3%). In the case of *expenditure on clothing and footwear*, Bulgaria and Romania, and even Hungary recorded the lowest level in relation to the EU (14.3% in 2010, down from 25% in 2008). Other new Member States also recorded relatively low levels as compared to the EU (Poland, the Czech Republic, and Slovakia), while Luxembourg and Italy recorded the highest levels (175% and 150%). With regard to *expenditure on housing, water, electricity, gas and other fuels*, Romania ranked penultimate in relation to the EU (24.2% in 2010, down from 30% in 2007), followed only by Bulgaria (15.2%), but also the rest of the new Member States recorded levels well below the European one. The highest levels were recorded by Luxembourg (214.7%) and Denmark (176.5%). For *expenditures on furniture and household equipment and housekeeping* Romania recorded a level close to or same as Hungary, Latvia, Estonia and Bulgaria (25% of the EU), but far from that recorded by Luxembourg (250%) or Austria (162.5%).

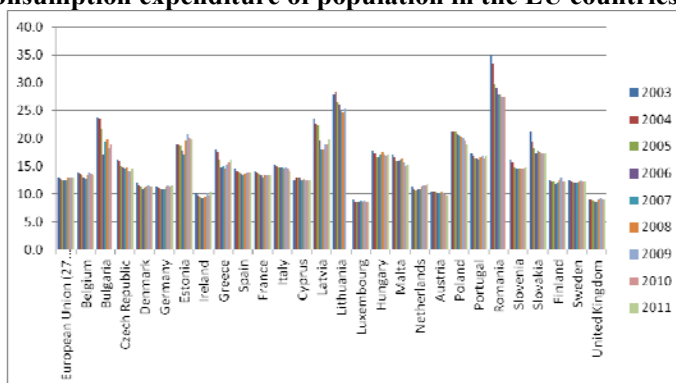
Also in the case of *health spending* Romania recorded similar levels to those of other new Member States (the Czech Republic, Latvia, Estonia, Hungary, and Poland), while the largest levels were recorded by Belgium, Finland and Greece. In the case of *transport costs*, Romania recorded the lowest level as compared to the EU level (only 22.2% in 2010, down from 31.6% in 2007-2008), below that of Bulgaria (27.8%). The highest level in relation to the EU were recorded by Luxembourg (305.3%), followed at great distance by Austria (136.8%). A level similar to that of most of the new Member States recorded Romania in the case of *communication costs* (50%), but the estimates of the per capita level of expenditure in this category has close values in most EU countries.

Last among the EU countries ranks Romania regarding the level of spending per capita for *recreation and culture* (only 16.7% of the EU level in 2010, but at half the level recorded by many of the New Member States). The highest levels in relation to the EU are recorded in Denmark (176.9%) and Finland, Sweden and Luxembourg (161.5%). The same is true in the case of Romania for the *expenditure on hotel and restaurants* (only 8.3% of the EU in 2010, down by ten percent from the previous year), but other new Member States also recorded fairly low levels (16.7% - Bulgaria, Latvia, Lithuania and Poland). The highest levels were recorded in Spain (208.3%), Austria (200%) and Cyprus (191.7%). Finally, Romania occupies the last position (on par with Bulgaria) regarding the

costs of various goods and services (13.3% in 2010), while the highest levels were recorded by Luxembourg (200%) and Denmark (162.5%).

The analysis of household consumption expenditure in EU countries must necessarily take into account the *shares of the various categories of expenditure in total expenditure*, because the "consumption patterns" highlighted are very different among the Member States. Thus, if at EU level the *share of expenditure on food and non-alcoholic beverages in total consumption expenditure of the population* has stabilized at a level of almost 13%, in Romania and Lithuania is still very high (27.5% and 24.5%, respectively), although the general trend was downward in 2003-2011 (Figure 1). Also, with the exception of Cyprus, the rest of the new Member States recorded percentages higher than the EU share, while countries like Luxembourg, Austria and the United Kingdom recorded shares below 10%.

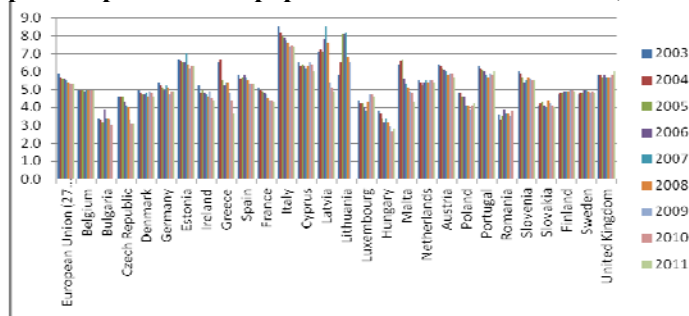
**Figure 1 Share of expenditure on food and non-alcoholic beverages in total consumption expenditure of population in the EU countries, %**



Source: Data from EUROSTAT.

Romania has a relatively average level of *expenditure on alcoholic beverages and tobacco* in consumer spending, but with sharp increase in 2010 (5% as compared to the EU level of 3.6%). The highest percentages are found in the Czech Republic, Estonia, Luxembourg, Hungary and Latvia, and the lowest in Spain and Italy. The share of *expenditure on clothing and footwear* in total consumption expenditure in Romania lies below the EU average (3.8% versus 5.3%), but was higher than in other new Member States (Bulgaria, the Czech Republic and Hungary - Figure 2). The highest level was recorded in Italy (7.4%) and the lowest in Hungary (2.8%).

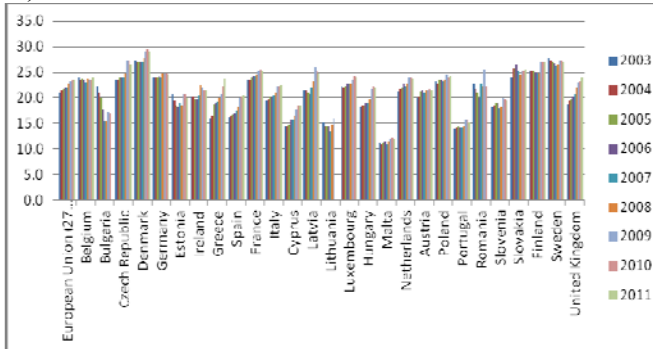
**Figure 2 Share of expenditure on clothing and footwear in total consumption expenditure of population in the EU countries, %**



Source: Dat from EUROSTAT.

High, but close to the average level of EU registers Romania in the case of *share of expenditure on housing, water, electricity, gas and other fuels* (22.3% as compared to 23.6% - Figure 3). The lowest levels were recorded by Portugal (15.3%) and Bulgaria (16.9%) and highest by Denmark (29.1%) and Finland and Sweden (26.9%).

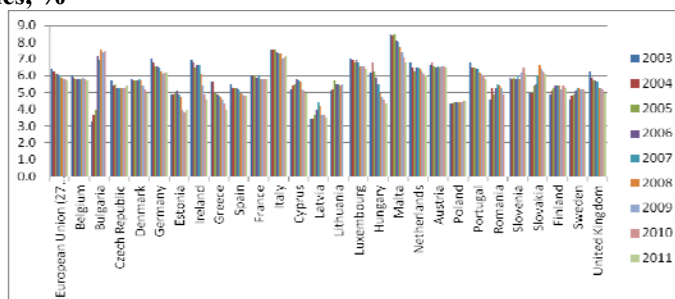
**Figure 3 Share of expenditure on housing, water, electricity, gas and other fuels in total consumption expenditure of population in the EU countries, %**



Source: Dat from EUROSTAT.

Share of *expenditures on furniture and household equipment and housekeeping* in the total consumption expenditure registered a decreasing trend in most European countries, including Romania, especially after the years 2007-2008 (4.9% in 2010, down from 5.5% in 2007 - Figure 4). The highest levels were recorded by Bulgaria (7.5%) and Italy (7.2%) and the lowest by Latvia (3.5%).

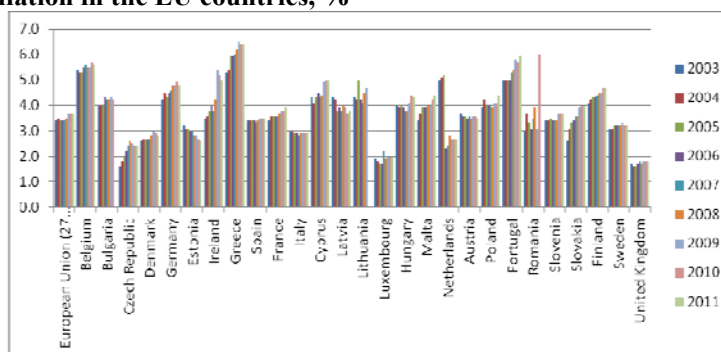
**Figure 4 Share of expenditure on furniture and household equipment and housekeeping in total consumption expenditure of population in the EU countries, %**



Source: Dat from EUROSTAT.

Regarding the share of *health spending*, it experienced a leap in 2010 in Romania, up to 6% of total consumption expenditure (above the EU level of 3.7% - Figure 5). High levels of the share of this group of spending were also recorded by Greece (6.4%), Portugal (5.9%) and Belgium (5.6%), while low levels were recorded by the UK (1.8 %) and Luxembourg (2.0%).

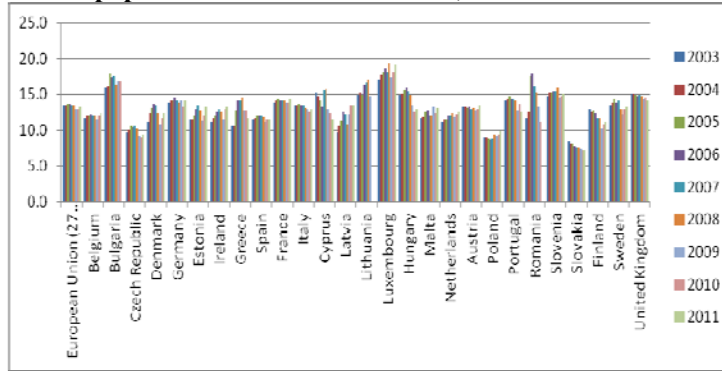
**Figure 5 Share of health expenditure in total consumption expenditure of population in the EU countries, %**



Source: Dat from EUROSTAT.

Romania recorded since 2007 a downward trend of the *share of expenditure on transportation* in consumer spending (11% in 2010, as compared to 18% in 2006 and 13.2% of the EU level in 2011), while in most European countries it tended to recover toward the end of the analyzed period (Figure 6). The highest levels were recorded by Luxembourg (19.1%) and lowest by Slovakia (7.3%) and the Czech Republic (9.4%).

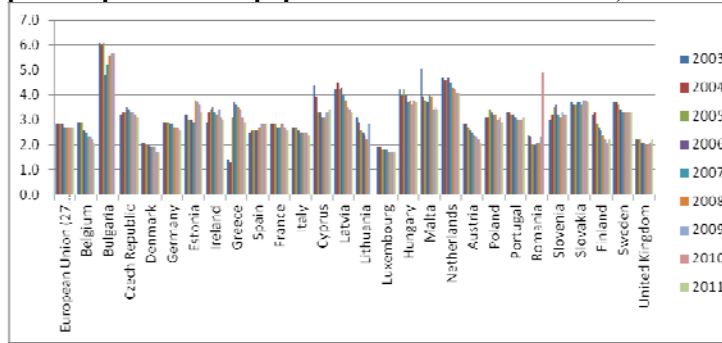
**Figure 6 Share of expenditure on transportation in total consumption expenditure of population in the EU countries, %**



Source: Dat from EUROSTAT.

A huge jump in 2010 was recorded by Romania in terms of *share of expenditure on communications* (4.9%, much above the EU level of 2.7% - Figure 7). Only Bulgaria has a higher percentage (5.7%), while the advanced countries such as Denmark and Luxembourg recorded shares of only 1.7%.

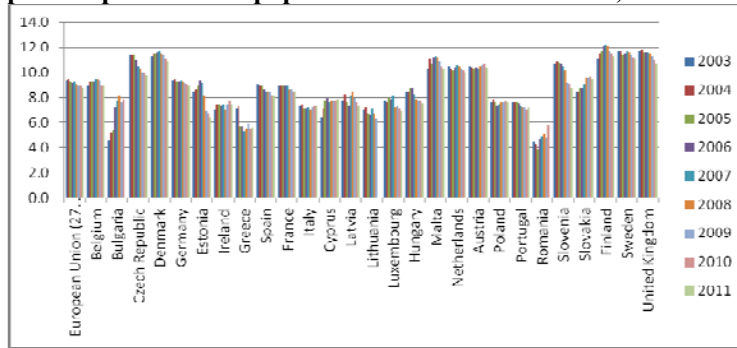
**Figure 7 Share of expenditure on communications in total consumption expenditure of population in the EU countries, %**



Source: Dat from EUROSTAT.

Regarding the *share of expenditure on recreation and culture* in total consumption expenditure, Romania has one of the lowest levels, even if growing (only 5.8% in 2010, as compared to the EU level of 8.9% - Figure 8). Reduced levels were also registered by Greece (5.6%) and Estonia (6.4%), while countries like Finland, Sweden, Denmark and the UK recorded levels close to 11%.

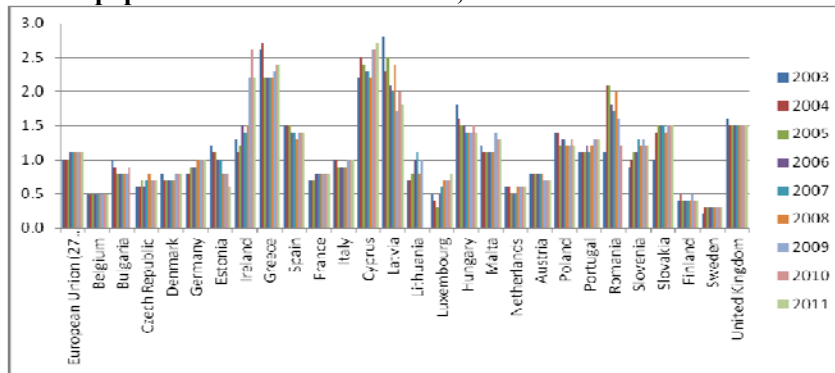
**Figure 8 Share of expenditure on recreation and culture in total consumption expenditure of population in the EU countries, %**



Source: Dat from EUROSTAT.

The share of education expenditure in consumer spending declined in Romania after 2008, but is still close to the EU level (1.2% in 2010 - Figure 9). Higher levels of share (2.2% -2.7%) were found in Cyprus, Greece and Ireland, while low levels (below 0.5%) were found in Finland, Sweden and Belgium.

**Figure 9 Share of education expenditure in total consumption expenditure of population in the EU countries, %**

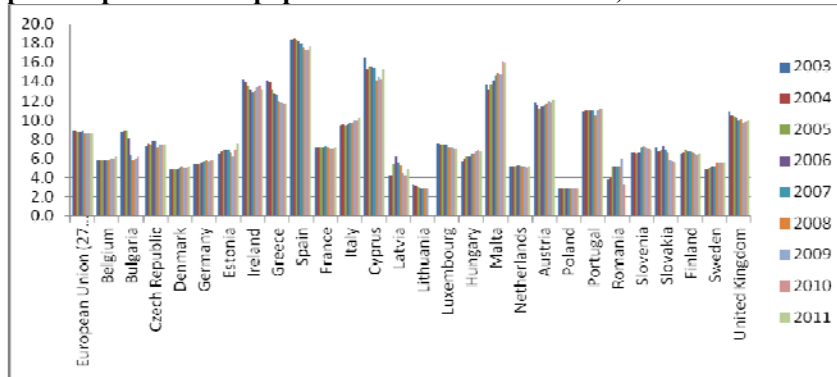


Source: Dat from EUROSTAT.

Share of expenditures on hotels and restaurants in total consumption expenditures dropped dramatically in 2010 in Romania (3% versus 6% in the previous year and the European level of 8.6% - Figure 10). The lowest levels were recorded also by two new Member States (Lithuania and Poland - 2.8%), while the highest by Spain (17.7%) and Malta (16%).



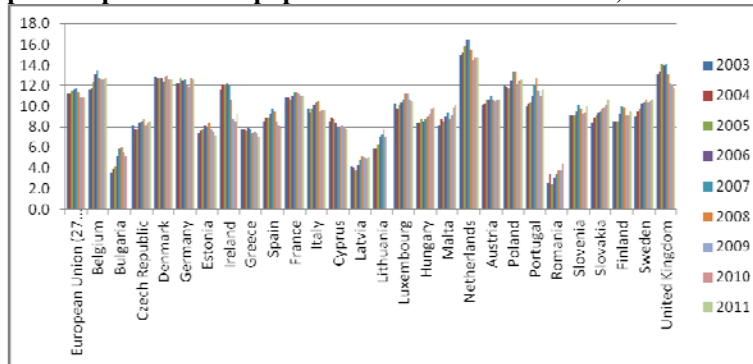
**Figure 10 Share of expenditure on hotels and restaurants in total consumption expenditure of population in the EU countries, %**



Source: Dat from EUROSTAT.

Finally, Romania recorded the lowest level of *share of expenditures on various goods and services* in total consumption expenditure (4.4% in 2010, as compared to an EU level of 10.9% - Figure 11). Low levels were also recorded by Bulgaria, Latvia (5%), whereas high levels were recorded by the Netherlands (14.8%), Belgium (12.8%) and Denmark, Germany and Poland (12.6%).

**Figure 11 Share of expenditure on various goods and services in total consumption expenditure of population in the EU countries, %**



Source: Dat from EUROSTAT.

**Conclusions**

In the European Union, the final total consumption expenditure of population grew slowly but continuously during 2003-2011 (with a decrease in 2009 and 2010, during the crisis), but Romania has registered a significant increase in total consumption expenditure in relation to the European average, similar to

that recorded by other new Member States. The developed EU economies recorded overall growth rates pretty close to average.

The categories of expenditure registered different developments, and Romania recorded large increases over the analyzed period for almost all categories of expenditure, a common situation also in other new Member States. Despite these increases, in terms of expenditure per capita Romania has low levels as compared to the developed EU countries and even to some new Member States, only in the case of per capita expenditure on food and non-alcoholic beverages Romania recording a slightly higher level.

The analysis of consumption expenditure of households in the European Union based on the percentages of the different categories of expenditure in total expenditure highlights different "consumption patterns" among the Member States. Thus, if the EU share of expenditure on food and non-alcoholic beverages in total consumption expenditure of the population has stabilized, in Romania is still very high, although the general trend was downward between 2003 and 2011. Large shares and close to the EU average recorded Romania for the expenditure on housing, utilities and fuels, as well as significant increases in recent years the share of health and communication expenditure. Meanwhile, the share of expenditure on transport was reduced in comparison with the rest of the European countries (and declining in the period) and expenditures on recreation and culture, hotels and restaurants and miscellaneous goods and services were either the lowest in the EU or sharply dropping during the economic crisis. *All this indicates for Romania a rather "quasi-subsistence consumption" behavior, characteristic of countries with lower development level and very sensitive to the adverse effects of economic crises and recessions.*

[1] The paper presents some results of the research theme "**Tendintele sociale si stilul de viata. Consumul si consumatorii in context european**", coordinator Dr. Marioara Iordan – Institute for Economic Forecasting, Bucharest, Romania, 2012.

## **DYNAMICS OF HOUSEHOLDS CONSUMPTION IN THE ROMANIAN REGIONS [1]**

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### **Abstract:**

*The financial crisis has triggered economic phenomena and processes that affected the economic progress and the performance decline recorded by the Romanian economy in recent years have been strongly felt by the population in all regions, irrespective of their development level. The paper presents a brief analysis of the evolution of consumption expenditure of households in the regions and macro regions of Romania between 2005 and 2009, trying to reveal the possible regional differences in consumption patterns.*

*The results reveal a possible "paradox of extremes" in terms of income and consumption expenditure - households in more developed regions seem to spend more on consumption because they have higher incomes, while households in less developed regions spend a higher proportion of their incomes because their level is lower. The highest levels of consumer spending by categories of expenditure were recorded by the București-Ilfov region and the other more developed regions, while the lowest mostly by some less developed regions. All categories of consumption expenditure were affected by the economic downturn in 2009, after a period of relatively sustained growth since 2005.*

**Keywords:** households' consumption, regional consumption expenditure, categories of consumption expenditure

**JEL Classification:** P46, R20, R22

### **Introduction**

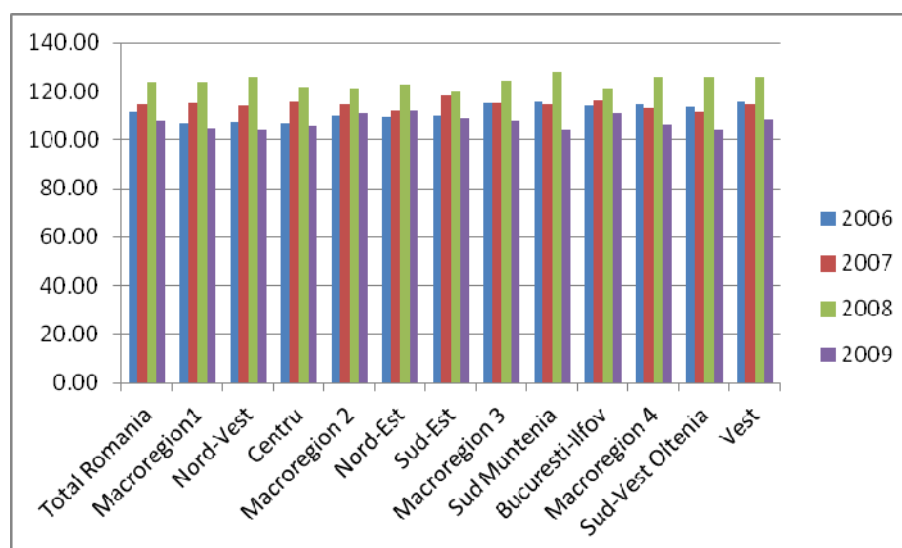
The financial crisis has triggered economic phenomena and processes that affected the economic progress and the performance decline recorded by the Romanian economy in recent years have been strongly felt by the population in all regions, irrespective of their development level. The paper presents a brief analysis of the evolution of consumption expenditure of households in the regions and

macro regions of Romania between 2005 and 2009, trying to reveal the possible regional differences in consumption patterns and the changes induced by crisis.

### Evolution of consumption expenditure of households in Romania's regions

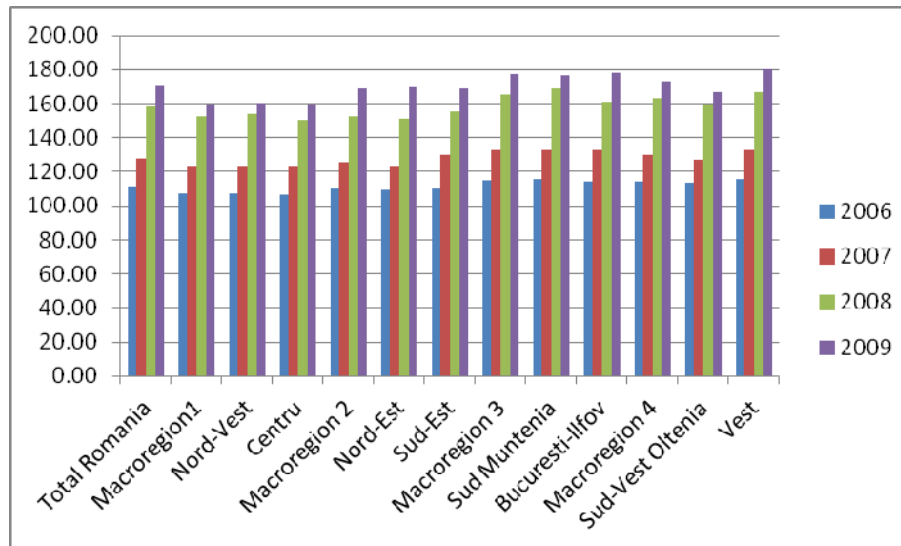
One of the most important indicators for consumption and consumer behavior analysis is obviously, the *consumption expenditures of households*. Similar to total incomes and total expenditures, they have recorded sustained growth in 2005-2008 in all regions of Romania, followed by a slowdown next year (Figure 1). Across the entire period, the highest consumer spending increases were recorded in the Vest region (by 80%) and the lowest in the Centru and Nord-Vest (by approx. 60% - Figure 2).

**Figure 1. Consumption expenditures of households in Romania, by macro regions and regions - index of annual change, %**



Source: Authors' computations, on the basis of *Statistica Teritorială 2011*, NIS, Bucharest.

**Figure 2. Total household consumption expenditures by macroregions and regions - global growth index, 2005=100.0, %**



Source: Authors' computations, on the basis of *Statistica Teritorială 2011*, NIS, Bucharest.

At regional level, in the case of consumer spending significant gaps are highlighted in relation to the national level between the Bucuresti-Ilfov region (130% in 2009) and the other regions, the lowest level being recorded by the Sud-Vest Oltenia region (88 % in 2009 - Table 1).

**Table 1. Deviation of total household expenditure, total Romania = 100.0**

	2005	2006	2007	2008	2009
<b>Total Romania</b>	100.00	100.00	100.00	100.00	100.00
<b>Macro region 1</b>	104.65	100.45	100.71	100.82	98.46
<b>Nord-Vest</b>	105.20	101.28	100.89	102.59	99.30
<b>Centru</b>	104.07	99.58	100.52	98.94	97.56
<b>Macro region 2</b>	94.48	93.05	93.08	91.38	94.00
<b>Nord-Est</b>	95.66	94.03	92.02	91.42	95.25
<b>Sud-Est</b>	93.00	91.81	94.44	91.34	92.41
<b>Macro region 3</b>	105.49	108.91	109.57	110.22	110.28
<b>Sud Muntenia</b>	91.30	94.93	94.81	97.75	95.01
<b>Bucuresti-Ilfov</b>	<b>124.84</b>	<b>127.90</b>	<b>129.50</b>	<b>126.98</b>	<b>130.72</b>
<b>Macro region 4</b>	95.24	97.99	96.74	98.32	97.18

<b>Sud-Vest Oltenia</b>	<b>89.25</b>	<b>91.05</b>	<b>88.65</b>	<b>90.20</b>	<b>87.38</b>
<b>Vest</b>	102.13	105.98	106.02	107.60	108.36

Source: Authors' computations, on the basis of *Statistica Teritorială 2011*, NIS, Bucharest.

Compared to *total revenue*, household consumption expenditure grew at a slower pace, allowing increased coverage of consumption expenditure by income (Table 2). There were significant differences between regions, the most favorable situation being recorded in Bucuresti-Ilfov and Sud-Vest Oltenia, positioned at the extremes in terms of both income levels and consumer spending. Opposite to the total expenditure, the worst situation was recorded in the Vest region, one of the most developed, but also in some less developed regions such as the Nord-Est region. Compared to *cash income* (Table 3), the most favorable situation was recorded once more in Bucuresti-Ilfov, while the worst case is recorded in the Nord-Est region. Such developments reiterate the "paradox of extremes" in terms of income and consumption expenditure - households in more developed regions seem to spend more on consumption because they have higher incomes, while households in less developed regions spend on consumption a higher proportion of their incomes because their level is lower.

**Table 2. Ratio of consumption expenditure to total revenue, by macro regions and regions**

	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
<b>Total Romania</b>	0.713	0.694	0.655	0.641	0.634
<b>Macro region 1</b>	0.719	0.684	0.651	0.636	0.634
<b>Nord-Vest</b>	<b>0.732</b>	0.693	0.648	0.639	0.642
<b>Centru</b>	0.706	0.675	0.653	0.633	0.626
<b>Macro region 2</b>	0.731	0.701	0.665	0.651	0.653
<b>Nord-Est</b>	0.734	0.696	0.658	0.653	<b>0.656</b>
<b>Sud-Est</b>	0.727	0.707	0.675	0.649	0.650
<b>Macro region 3</b>	0.702	0.698	0.644	0.628	0.614
<b>Sud Muntenia</b>	0.705	<b>0.726</b>	0.640	0.648	0.620
<b>Bucuresti-Ilfov</b>	0.699	0.672	0.648	<b>0.609</b>	<b>0.609</b>
<b>Macro region 4</b>	0.694	0.692	0.663	0.650	0.638
<b>Sud-Vest Oltenia</b>	<b>0.672</b>	<b>0.666</b>	<b>0.640</b>	0.628	0.621
<b>Vest</b>	0.716	0.719	<b>0.686</b>	<b>0.673</b>	<b>0.656</b>

Source: Authors' computations, on the basis of *Statistica Teritorială 2011*, NIS, Bucharest.

**Table 3. Ratio of consumption expenditure to cash income, by macro regions and regions**

	2005	2006	2007	2008	2009
<b>Total Romania</b>	0.895	0.860	0.808	0.771	0.758
<b>Macro region 1</b>	0.909	0.852	0.798	0.780	0.765
<b>Nord-Vest</b>	0.941	0.872	0.797	0.797	0.797
<b>Centru</b>	0.878	0.832	0.800	0.762	0.733
<b>Macro region 2</b>	0.961	0.913	0.866	0.817	0.808
<b>Nord-Est</b>	<b>0.978</b>	0.926	<b>0.880</b>	<b>0.853</b>	<b>0.844</b>
<b>Sud-Est</b>	0.941	0.898	0.850	0.775	0.765
<b>Macro region 3</b>	0.829	0.817	0.752	0.712	0.704
<b>Sud Muntenia</b>	0.912	<b>0.933</b>	0.829	0.785	0.773
<b>Bucuresti-Ilfov</b>	<b>0.760</b>	<b>0.725</b>	<b>0.689</b>	<b>0.650</b>	<b>0.649</b>
<b>Macro region 4</b>	0.891	0.868	0.829	0.795	0.769
<b>Sud-Vest Oltenia</b>	0.890	0.849	0.826	0.789	0.766
<b>Vest</b>	0.892	0.887	0.832	0.801	0.772

Source: Authors' computations, on the basis of *Statistica Teritorială 2011*, NIS, Bucharest.

In general, all *categories of consumer spending* increased in 2005-2008 in all regions, followed by slow or even significant reduction in some regions in 2009 (*expenditures on hotels, cafes and restaurants, education spending, expenditure on recreation and culture, transport costs, costs for furniture, household equipment and maintenance, expenditure on clothing and footwear*). With regard to overall increases over the analyzed period, there were large differences in the regions among the categories of expenditure.

*Consumer spending on food and non-alcoholic beverages* registered the largest increases in the Bucuresti-Ilfov region (by 77.5%) and the lowest in the Sud-Vest Oltenia region (by approx. 50%) and Nord-Vest and Centru regions (by 52-53%), while *spending on alcoholic beverages and tobacco* registered some of the largest increases, ranging from 80% in the Sud-Vest Oltenia region to 140.5% in the Vest region. Also the Vest region recorded the largest increase in *consumer spending on apparel and footwear* (by almost 100%), while the Sud-Est region recorded the lowest one (by only 44%). The Vest region and the Sud Muntenia and Sud-Vest Oltenia regions recorded the largest increases in *consumer spending on housing, water, electricity, gas and other fuels*, and the Centru region the lowest, while the highest increases in *consumption spending on furniture, household*

*equipment and maintenance* were recorded by the Vest, Sud-Vest Oltenia and Sud-Est regions, and the lowest also by the Centru region. *Consumer spending on health* has large relative increases in all regions, ranging from 70% in the Nord-Vest region to 122% in the Vest region, while *education spending* registered the highest differences between regions – from nearly tripling level in the Sud Muntenia region to reducing by approx. 10% over the period in the Vest region. *Costs for transport* had the largest increases in the Bucuresti-Ilfov region (doubling their volume) and the lowest in the Centru region (by only 18%), while *communication costs* revealed smaller differences between regions, ranging from increase by 52% in the Bucuresti-Ilfov region to increase by 103% in the Vest region. Large increases were also recorded by *expenditure on recreation and culture* (between 53% in the Centru region and 110% in the Bucuresti-Ilfov region), by *expenditure on hotels, cafes and restaurants* (between approx. 45% in the Sud-Est region and 116% in the Sud Muntenia region), but especially by the *spending on various goods and services* (from 81% in the Nord-Vest region to 151% in the Vest region).

Regarding the gaps towards national levels, for most categories of consumer spending the highest levels were recorded by the Bucuresti-Ilfov region, but in the case of the lower levels, a wide variety of cases for various categories of expenditures may be revealed. The Vest, Nord-Vest and Centru regions recorded higher levels for different categories of consumer spending. Thus, in the case of *consumer spending on food and non-alcoholic drinks*, the lowest levels compared with the national level were recorded by several regions (Sud-Vest Oltenia, Sud Muntenia and Sud-Est) while for *consumer spending on alcoholic beverages and tobacco* the lowest levels were recorded by the Vest and Nord-Est regions. The Sud-Est and Nord-Est regions had the lowest levels of *consumer spending on apparel and footwear*, and *consumer spending on housing, water, electricity, gas and other fuels*. The Sud-Vest Oltenia region recorded the lowest levels compared to the national average also for other categories of expenditure (*consumption expenditures on furniture, household equipment and maintenance, consumer spending on health, transport expenditure and expenditure on various products and services* and, partly, *communications expenditures, costs of recreation and culture and education spending*). Also, the Nord-Est, Sud Muntenia and Sud-Est regions recorded the lowest levels for certain categories of expenditures (*expenditures on hotels, restaurants and cafes, spending on recreation and culture,*



*communication expenditures, consumption expenditure on housing, water, electricity, gas and other fuels and consumer spending on apparel and footwear).*

### **Conclusions**

Affected by the overall performance of the economy, the consumption expenditure of households also recorded sustained growth in 2005-2008 in all regions of Romania, followed by a slowdown next year, the first year of crisis impact. Compared to *total revenue*, household consumption expenditure grew at a slower pace, allowing increased coverage of consumption expenditure by income, with differences between regions, the most favorable situation occurring in Bucuresti-Ilfov and Sud-Vest Oltenia regions, positioned at extremes in terms of both income and consumer spending levels. Opposite to the total expenditure, the worst situation was recorded in the Vest region, one of the most developed, but also in some other less developed regions, developments that reiterate the "paradox of extremes" in terms of income and consumption expenditure - households in more developed regions seem to spend more on consumption because they have higher incomes, while households in less developed regions spend a higher proportion of their incomes because their level is lower. In general, all categories of consumer spending increases in 2005-2008 in all regions, followed by slowdown or even significant reduction in some regions in 2009. The highest levels of consumer spending by categories of expenditure were recorded by the Bucuresti-Ilfov region and other more developed regions (Vest, Nord-Vest and Centru regions), while the lowest mostly by some less developed regions (Sud-Vest Oltenia, Nord-Est and Sud-Est).

[1] The paper presents some results of the research theme “**Tendintele sociale si stilul de viata. Consumul si consumatorii in context european**”, coordinator Dr. Marioara Iordan – Institute for Economic Forecasting, Bucharest, Romania, 2012.



## **LOGISTICS IN KNOWLEDGE BASED ECONOMY**

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***Abstract:***

*In the context of contemporary economy logistics changes refer to the emergence of new inter-organizational logistics structures such as logistics networks, and to a number of alterations in organizations' vision and conduct regarding the role and importance of knowledge. The research focuses on identifying the instruments promoting inter-organizational knowledge transfer within logistics networks provided that each organization relies on its own knowledge and organizational skills to ensure a competitive advantage.*

**Keywords:** levels of logistics development, environmental factors, logistics principles, knowledge-based economy.

**JEL Classification:** M21

In present-day economy the conceptual and operational development of logistics is the outcome of organizations' increased experience in the sectors they operate in and it included a number of evolution **levels**:

- ♣ coordinating the activities which ensure the actions of the logistics process are carried on (transport, warehousing, storage and processing of orders, customer service, purchasing, sales);
- ♣ grouping and regrouping staff in well defined structures in order to maintain the logistics process;
- ♣ integrating logistics activities to ensure low cost utilities of time, place and orders' procurement;
- ♣ strategic approach of logistic activities to ensure organization's competence and securing of inter-organizational alliances (suppliers, customers) and to ensure the competitive advantage.

This development of logistics was influenced by several **environmental factors** of the organization, such as:

- Transportation costs;
- Quality assurance;

- Diversification of production;
- Stock control;
- Protection of the environment;
- Intensification of marketing;
- Variety of technical instruments for data and information collecting, processing, transmission and storage

**a) Transportation costs** determined by: fuel price; diversification of transport means; identification and implementation of new distribution methods can produce changes in the organization's logistics development.

**b) Quality assurance** includes: inclusion of logistics activities in the quality system procedures developed by international standards ISO-9000/version 2000; reassessing logistics activities taking into account customers' explicit and implicit requirements regarding quality; application of quality assurance methods and techniques to eliminate or reduce quality costs.

**c) Diversification of production** can influence the evolution of logistics by: improvement of existing production technologies; use of new raw materials and resources of higher quality than the existing materials; customers' various requirements regarding supply of goods/services; research and marketing development; organizations' competitiveness; reducing the life span of products and increasing the renewal level of products/services.

**d) Stock control** causes changes in logistics due to: tendency to reduce stocks in different phases of product manufacturing; finding and applying new methods of stock administration; use of computer technique in stock control; stock planning in circumstances of certainty and uncertainty.

**e) Protection of the environment** has an impact on logistics development as it implies: using reusable or fast biodegradable packaging; using recyclable materials and manufacturing recyclable products which result from the production or consumption processes; withdrawal from the market of products not complying with quality standards or causing health problems for consumers.

**f) Intensification of marketing** via: development of marketing activities within the organization; creation of specialized structural components; selection and employment of marketing experts; diversification of promoting methods: advertising, sales promotion, individual sale compels the organization's management to consider the influence of this factor on decision making in logistics.

Any change in the content of these factors determines in general adjustments in the content of the logistics components of an organization: specialized or support activities (customer service; procurement; order processing; transportation; storage; stock administration; handling of raw materials, resources, fuel, parts, semi-finished products, assemblies, subassemblies, finished goods; distribution; packaging), material flow; informational flow.

**g) The variety of technical instruments for data and information collecting, processing, transmission and storage** characterized by: the ability to use in the logistics activities a large volume of processed, organized and systematized data and information; to study the quality of distribution services for customers, as well as services provided by suppliers; identification, evaluation and selection of suppliers that meet the needs imposed by achieving quality products and service delivery; knowledge of quantity and product structure, raw materials, resources, fuels present in the organization storage, distributed to customers or purchased from suppliers.

Also, in present-day economy, compliance with certain **principles** by all structural components of the organization is an important part in achieving performance in logistics:

- Provide a link between logistics and organization's strategy.
- Creating a global organization.
- Enhance the power of information.
- Emphasis on human resources.
- Establishment of strategic alliances.
- Focus on financial performance.
- Establish optimal level of services.
- The importance of solving details.
- Volume of goods optimization.

These core principles are valid regardless of the sector of activity, type of organization and geographic position.

In the context of economic development towards new tendencies which place information elements at the heart of the production and exchange processes, the concepts of knowledge and information are increasingly more important, being regarded as the essential element in ensuring the competitiveness both at organizational level and at the level of economic sectors, national economies and the global economy as a whole.

By their nature, organizations operating in a knowledge-based economy require collective management skills as sources of systemic viability. In the most general terms, skills refer to what an organization knows and is able to do in relation with its own objectives and in given environmental conditions, based on the individual skills of their members, systemically articulated and strategically mobilized. Knowledge-based economy encourages the establishment of new specific skills which will be the basis of the development of a unique competitive profile for each organization.

Information and knowledge flows play a decisive role in confirming the knowledge based economy as belonging to contemporary reality, both as a determinant of professional and managerial activities, as well as the scientific research object.

By way of manifestation, by complexity and expression forms the factors influencing logistics (transportation costs, quality assurance, production diversification, stock control, environmental protection, intensification of marketing) also contribute to the development of the content of information and knowledge flow, both in terms of producing knowledge (innovation) and dissemination (communication) and their acquisition (learning).

Thus, regarding the knowledge production, most of the influence factors produce the experience effect, materialized in productivity increase at production level. Reducing the life span of products / services and accelerating their renewal encourage innovation - the production of knowledge - and their dissemination, which leads to the establishment of general guidelines capitalized individually by organizations. Distribution of products / services (considered a logistics specific activity), in conjunction with promoting expansion, contributes to the expansion of the knowledge base by diversifying the usable methods and techniques, by assimilating the feed-back from the environment, with influences upon the reevaluation of the decision-making process regarding the substantiation upon factual and current information.

Environmental protection brings about the organization's social responsibility, which is reflected in utilization of reusable or biodegradable materials or withdrawal from the market of substandard quality products or affect the health of users. By ensuring quality, the organization contributes to: educating consumers, encouraging communication on the supplier - manufacturer – client axis, organization's involvement in sectors which are normally outside its area of expertise.

The knowledge base can be found in the content of the strategies conveyed at the level of the new model of economy and society, strategies that require alliances and structural reconstructions (e.g. cluster networks) and informational (aggregation of information and common knowledge of a domain which can be customized depending on the competitive profile of each organization).

In the knowledge based economy, control of the elements of logistics components is reduced given the information and knowledge flow has a high degree of self-control, not being subject to traditionally and hierarchical authoritarian routing. Controlling the information elements in the field of logistics is based on the reevaluation of the knowledge base.

The context created by the knowledge-based economy results in a new level of development of logistics, namely the operation of a system capable of self-development and learning, able to assimilate information structures and to process them, identifying and eliminating deviations from the set alternatives strategic.

Globalization of certain activities generating added value, one of the characteristics of the knowledge based economy, applies a strong pressure on organizations to stimulate adaptability, innovation and shortening processes, which requires an awareness of the value of specialized knowledge related to organizational processes (management and execution) to control this pressure.

This awareness of the value of knowledge requires their inclusion in logistics principles fact which will lead to their rephrasing based on the concepts of the knowledge-based economy.

The first principle of logistics (*logistics connection with the organization's strategy*) thus acquires a new meaning in the context of organizational competence concept, a notion that draws a competitive advantage based on organization specialization. This specialization (as the effect of the experience gained by the organization in various logistics or production activities) will be the basis of *the creation of strategic alliances and organizations networks*.

This development entails refinement of the principle on *enhancing the power of information*. Without diminishing the importance of the information and communication part of logistics activities, the preparation of methods to identify and store the relevant elements to be subsequently included in the organization epistemic base and to be used in the construction of new techniques, procedures and instructions (prescriptive knowledge) within the organization should also be taken into account. The principle regarding *the focusing on human resources* also acquires a new dimension given that the knowledge-based economy is built on

increasing the training level of people, both quantitatively and qualitatively, given that access to training and education is also easier and less expensive. Moreover, educational processes themselves go through a series of changes to, shifting the focus from the transfer of information (usually through memory) to assimilation and processing the information in order to stimulate individual processes of knowledge creation. Managers in the field of logistics activities (as well as all economic activities) are therefore faced with the challenge of selecting and using staff with personal competencies higher than those of 20 years ago, with a higher creative and innovative capacity and an opening towards intellectual work incomparably greater than in the past. These features justify discussing human resources as an "intellectual capital" and one of the most valuable assets of the organization.

Regarding the principle *emphasis on financial performance*, the mark of the knowledge and characteristics of knowledge based economy will become noticeable, especially in terms of increasing efficient assets use. As a result, economic and financial markers will not only reflect the economic performance of the organization, but also the volume of organizational knowledge and the human resources quality as a factor in their execution.

According to the definition, logistics is intended to procure all the necessary production elements and to ensure the transfer of results to clients in order to serve them. However, taking into account the constant fluctuations in clients requirements, preferences and expectations, and the need to include knowledge in commercial transactions, inputs and outputs, logistics is forced to develop a dynamic character, motivated by the existence of a number of factors:

- Scientific and technical skill;
- Production and consumption diversification;
- The client's level of education and culture;
- The resources level.

**Scientific and technical skill** is determined by the accumulation and use of technical, economic and administrative information and knowledge by the organization, and is the only internal factor through which action can be taken to determine, obtain or modify the content and expectations level of customers (expectations reflected in the quality parameters of the products or required services). Moreover, this factor leads to activation within the logistics activities of a series of synergistic articulated behaviors of *co-development* (interactive



generation of new knowledge), *co-learning* (mutual validation of new cognitive acquisitions) and *co-management* of capitalized knowledge.

**Production and consumption diversification**, although manifested at the level of the producing organization, is a result of the changes recorded in the social need (necessity) system. Through market research, organizations determine and define the customers requirements and expectations about products or services and the data needed to achieve those at an optimal cost (adequate) and in accordance with defined specifications (standards or other normative documents).

**The client's level of education and culture** is determined mainly by the client's propositional but also by the prescriptive knowledge base, thus making this feature impossible to be controlled by the producing organization.

In the context of the knowledge based economy, both increasing customer education and production and consumption diversification (in many cases a consequence of raising the level of training and customer culture) arise mainly from the availability of information regarding the best products and prices, information often obtainable at low cost and in a short time.

The resources level (especially knowledge resources) is another factor underlying the dynamic nature of logistics in the context of the knowledge based economy. If the volume of material and financial resources is a factor conditioning requirements and the behavior of producers and customers, intangible resources can compensate to some extent the physical limits of the other resources, improving their utilization efficiency and incorporating in the production results a series of non corporate elements impacting on performance and their life span. However, these intangible resources are limited by the quality of human resources within the organization and their ability to capitalize on the highest possible level personal and collective skills, this being actually one of the reasons that continuous learning is situated on a prominent place in the knowledge based economy.

As knowledge gains an increasing importance in the economy, not only as resources, products and object of sale – purchase but also as solutions to meet the pressures of globalization and international competitiveness, organizations in all economic sectors must find ways to acknowledge intellectual capital and the epistemic foundations they own, and to capitalize on the advantages that those offer. In this respect logistics plays a decisive role, in his field of action entering most of the organizations' activities of procurement, storage and dissemination of knowledge in, which highlights its importance in ensuring the competitive advantage of organizations (asset focused precisely on the ability to form and

operate a specific type of organizational competency in knowledge based economy).

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## **INFORMATION SOCIETY: CONTENT, MANIFESTATION, SOCIOECONOMIC IMPLICATIONS**

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### ***Abstract:***

*Information Society represents a new stage of human civilization, a new way of life of superior quality involving intensive use of information in all spheres of human existence and activity, with a major economic and social impact.*

*Technological advances in the last decades allowed the emergence of new multimedia services and telematics applications. The development of new means of communication and information technology is an important factor in increasing economic competitiveness, opening new perspectives for a better organization of work and to create new jobs. Also, it opens new perspectives for the modernization of public services, healthcare, environmental management and new ways of communication between public administration and citizens. Also, with new technology, broad access to education and culture can be achieved for all social groups regardless of age or geographic location.*

*This paper presents some general characteristics of Information Society, some forms of information and communication technologies (ICT) and their socioeconomic impacts.*

**Keywords:** informational society, socio-economic, ICT forms

### **1. Introduction**

Major changes in recent years (exponential growth of mobile communications and Internet users, the contribution of the Information and Communication Technology (ICT) to economic growth and creation of jobs, accelerated development of electronic commerce) support the transition from the industrial age to the post-industrial shift to "knowledge economy".

Knowledge-based information society is more than the progress of technology and information and communication applications, it integrates *social, environmental, cultural* and *economic* dimensions.

Building the new model of society raises major socio-political issues - both nationally and internationally - to mitigate the phenomenon of exclusion from the benefits of the new technologies for some social categories and geographical regions / zones and of social cohesion, preservation and promotion of the culture of nations and local communities, of citizen and consumer protection. Solving these problems can be achieved only through a broad dialogue between the government, business representatives, academics and civil society at national, regional and global levels.

Studying ICT issues requires taking into account a number of aspects of different types: *technical* (hardware and software, vulnerability of information systems), *managerial* (very useful in determining business policy), *legal* (new regulations and laws, imposing the effective application of the law, punishing criminal acts, etc.), *educational* (ICT users must become aware of the functions and potential effects caused by technical means and learn how and when they can be used safely), *ethics* (ethics of computer scientists) and *market* (competition and the demand of technical means users can generate many technical improvements hard or soft).

In this context, this paper is a brief presentation of specific ICT forms, and an analysis of their socio-economic impact.

## **2. Transition to the Global Information Society**

Analyzes of various specialized bodies emphasize that in coming years the use of electronic computers will expand to all fields, as current performance will increase almost hundred thousand times. The name of this computer will be system-on-chip, and its price will be so small that the packaging will be more expensive than the system itself.

At the same time, information and communication technologies and the discovery of new materials will lead to the so-called cyberspace, whose backbone will be the Internet and virtuality through digitization.

J. A. O'Brien believes that in order to reach the global information society humankind must undergo four stages, namely:

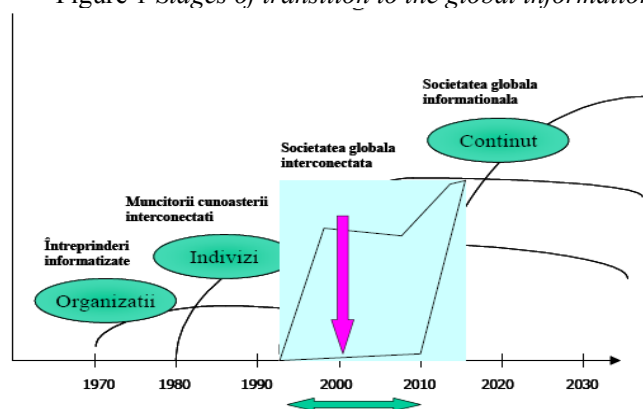
1. Computer company state, the period 1970-2010;
2. Knowledge workers network stage, which began in 1980;
3. Global Interconnected Society stage, started around 1992-1993;
4. Global Information Society state that will start after 2010 (Figure 1).

As shown in Figure 1, by 2010 the world was in a state of overlapping of the first three waves, indicating a *transitional period* with the specific risks and advantages. As it can be seen, mankind has not yet overcome even the first stage, but two others were already underway while the fourth stage started in 2010.

During *the first wave* attention was drawn to *organizations* as the key to making a profit. Thus, considering the electronic computer intended to decrease the time and cost to obtain information, and to reduce production costs. The goal was and it still is the *computerization of enterprises*.

In *the second wave* the emphasis was on *individual performance in a paperless environment*. The jump in productivity in these conditions is given through the *knowledge* available to individuals and the *degree of interconnection among them*. The goal in this stage is the status of networked knowledge worker.

Figure 1 Stages of transition to the global information society



Source: Tudorel Fatu, Alexander Tugui, *which follows the Information Society?*, [www.edemocratia.ro](http://www.edemocratia.ro)

Attention in *the third wave* moves towards achieving *connectivity* in the global society in which knowledge workers and firms operate computerized. Conducting value-creating activities under such conditions attracts increased efficiency. The ultimate goal of this wave is to obtain the *globally interconnected society (network society)*.

The transition to *the fourth wave*, the computerization of companies is considered finished, which means that the computer will be a common tool that anyone will afford at a low cost. It will be the stage when the concept *system-on-chip* will be general.

### **3. Forms of ICT and their socio-economic impact**

Widespread use of information and communication technologies and progress towards the Information Society provides economic growth with enhanced protection of the environment, reducing the speed of physical consumption in exchange for increased use of information and knowledge, moving the centre of gravity from investment in fixed assets to investment in human capital. The Information Society integrates *sustainable development objectives* based on social justice and equality of opportunity, freedom, cultural diversity and innovative development, environmental protection, restructuring the industry and business environment.

The change brought by the use of information and communication technologies affects all fields. The Internet phenomenon enhances transformation by providing people and organizations with widespread information resources.

If electricity needed a century to reach the whole world, Internet and Intranet networks are now used by nearly a billion people and applications based on them are spreading rapidly due to building a new technical infrastructure. ICT-related industries create jobs at a rate two times faster than other industries. While natural resource costs per unit of product produced steadily decreased in the last hundred years, the amount of information and knowledge embedded in products increased during the same period, at the same rate.

Information is considered, therefore, a new resource, a real capital of the modern economy. ICT impact on business results in changing the perception about information as a production factor. If before a deal was equivalent to people, technology and capital, in the new economy we speak about people, technology, capital and information. The transformation effect is of information resources on the industry and the gradual disappearance of boundaries between products and services.

Information and knowledge management is developing as a business function and as a new position in the organization, defending the new business opportunities of ICT.

Staff dealing with the collection, processing and dissemination of information becomes increasingly larger. For example, in the USA for three centuries (1700-1950), the share of the staff employed in these activities was estimated at 5%, but with the spread of ICT the proportion increased at the end of the twentieth century, to more than 67%.

The size of the ICT industry is also reflected in other economic sectors.

This industry attracts the highest level of investment oriented, mostly, not towards the computer companies, but towards their customers. For example, the ICT industry is now the largest industry in the U.S. WITSA 2004 Statistics notes that global ICT spending reached about 2,400 billion, i.e. 7.6% of the gross product of the entire planet. Organization-wide ICT spending per economic sector, country, geographic region, has come to be regarded as relevant for the economic behaviour of that entity.

➤ **ICT technologies and competitive advantage**

Using ICT becomes a source of competitive advantage. The fight for acquiring competitive advantage is lost from the beginning to a competitor using new technologies on a larger scale and more effectively.

ICT provide opportunities to change the way an organization works. If today the orientation is more towards functional areas and departments, future ICT-based management will be process-orientated. The procurement process will be considered unique per organization and it will be streamlined regardless of what they are buying. It will be similar for other processes.

Also, there are changes in organizations: they become more flexible and adaptable, more flat, teams and not hierarchy are important; the information is available in real time, determining the cost of different activities is effective.

Based on the European Commission's annual report on the progress of the i2010 it can be said that public and private investment in information and communication technology are beginning to pay dividends. It also shows that, as Europe moves towards a knowledge-based economy, technology fuels innovation and productivity and there are signs of fundamental changes in the market and consumer behaviour.

The European Commissioner for Information Society and Media, Viviane Reding, said that *"Our integrated European policy for growth and employment is now starting to bear fruit. However, do not rejoice yet. ICT companies in Europe are still not able to benefit from economies of scale, due to regulatory fragmentation that blocks the emergence of pan-European services and is affecting electronic communications operators and software companies opportunities to compete on the world market. European Union and its Member States must make, in particular, more efforts to remove the impediments services are facing in national markets"* [Press Conference, 13 March 2008, Bucharest].

➤ **E-business**

*Electronic business* is using global information networks qualities to achieve internal and external links in order to record a profit.

Computer mediated business started in developed countries since the late '70s, and economic business development is one of the important factors to foster the growth and prosperity of society.

Using e-business has advantages and disadvantages. E-businesses have the common advantages of computerization for various fields, but certain features are specific. Among the most important advantages of using e-business are: the significant increase in business dynamics; expansion of outlets / access for / to products and services, which involves competition on price and increasing the quality of required products and services; the facility to find products needed; reduction of the time for doing business, including the manufacturing cycle, the conclusion of agreements, contracts, reducing border difficulties and so on.

Difficulties in the implementation and use of e-business are higher the weaker the economic entity (country, region, company) that uses it. If in developed countries things can evolve relatively well through the efforts and cooperation of economic entities, in underdeveloped countries state support for determining priorities and monitoring echelons is needed. Many countries, primarily the economically developed countries have a policy of active e-business by creating committees or working groups and research centres for this purpose. Such entities were created not only in the U.S., UK, Germany, France, but also in developing countries such as Peru (1998), Cuba (1999), Philippines (1999) etc.

➤ **E-learning**

The societal impact of information and communication technologies led to a normal reaction in the educational systems, implementing new information technologies being considered one of the most important issues, elevated to national policy, in the late twentieth century and early third millennium.

It can be said that since the '80s a technological revolution was triggered in education. The use of computers has raised unprecedented hopes for the future of the educational endeavour. Internet-based training solutions provide faster results at lower costs, greater access to training and clear accountability for all participants in the training process. Internet training ensures accountability, accessibility and opportunity. It enables people and organizations to keep pace with the global economy evolving now with the speed of Internet.



➤ **Electronic commerce (e-commerce)**

Electronic commerce means, in its "traditional" use, to support for networks with value-added applications such as electronic transfer of documents (EDI), fax communication, bar codes, file transfer and electronic mail.

The extraordinary development of Internet computer interconnectivity, for all society's segments, has led to the companies' increasingly obvious tendency to use these networks for a new type of commerce, electronic commerce over the Internet, providing new services, in addition to the ones mentioned previously.

ECommerce successes are numerous and noticeable. It occurs all over the world, being essentially global, both conceptually and as outputs, and being very quick, it closely follows the deployment of the Internet and the World Wide Web. The impact of electronic commerce on businesses and society is particularly so in amplitude and intensity.

Regarding the impact on firms, e-commerce offers unique opportunities to reorganize the business, redefine markets or create new markets. E-commerce initiatives can generate cost reductions, increases in revenue and operational efficiencies for companies looking to gain a competitive advantage in the economic environment.

Electronic commerce enables firms to become more efficient and flexible in their internal mode of operation, to work more closely with suppliers and become more attentive to customer needs and expectations. It enables companies to select the best suppliers, regardless of their geographical location, and to sell in a global market.

This development has a major impact on the economy in terms of new business creation and diversification of the existing ones and especially on the labor market potential and employment rate in the future.

**4. Impact of internet culture, society and economy**

Internet and any use of open electronic networks have and will have a decisive impact on the society and its future. Internet's impact on society consists of a set of *functionalities and effects*, of which: Internet is a set of *functionalities* required by different research communities and particularly useful for an open exchange of digitized data via e-mail, computer file transfer and dissemination of information in a global network of Web sites; *simplifying work processes and*

*communication; reduced costs; group work, collective creativity; establishing global connections; access to information sources.*

Studying ICT issues requires to take into account different aspects: *technical* (hardware and software vulnerability information systems), *managerial* (very useful in determining business policy), *legal* (new regulations and laws imposing effective application of the law, punishment of criminal acts, etc.), *education* (ICT users must be aware of the functions and the potential effects caused by technical means and to learn how and when they can be used safely), *ethical* (ethics of computer scientists) and *market* (competition and the demand of technical means users can generate many technical improvements in hardware and software).

Technological changes or the introduction of new technologies usually require corresponding changes in the existing framework, the organization of institutions, business policy for changing the personal skills of those involved and even transforming mentalities. The new technology may make feasible activities or actions that previously could not be completed when the legal framework has been developed and, therefore, some of such acts and activities cannot be considered illegal or criminal until a law to ban them is developed.

The application of new technologies, even when solving current problems of production, increasing welfare or improving health, sometimes have undesirable side effects whose solution required and requires further efforts.

Therefore, it can be said that any new technology creates risks and causes problems for which the institutions designed to absorb the shocks caused when implementing the new technology are called upon to solve.

The European Economic Community has already adopted legal instruments to harmonize national laws of its Member States regarding the protection of personal data processed automatically, intellectual property, and prevention of cyber crime. At the CEE level have not yet been identified solutions regarding: the illegal and harmful content of Internet communications, criminal procedural rules, the security of computer systems and data protection sanctions.

In the telecommunications sector, Romania has requested a period of 6 years, i.e. until 1 January 2013 for the full harmonization of the radio spectrum in agreement with the European table of frequency allocation and use (ERC Report 25 - Brussels, 1994, as amended), and the implementation of all the decisions and recommendations of the European Radiocommunications Committee (ERC) under the European Union Council Resolution of 19 November 1992.

Consequently, Romania's ICT horizons for 2007 - 2010 in the context of the social, legal, economic, ethical impact of its use should include: i) the harmonization of the national and CEE legal frameworks, ii) development of a specific national strategy to counter cyber criminal activities and iii) creating the necessary infrastructure to enable the prevention of crime facilitated or generated by ICT.

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## **PARTICULARITIES CONCERNING THE PROFITABILITY AND THE FINANCIAL INSTRUMENTS PORTFOLIO RISK**

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### **Abstract:**

*Over time, those who manage the portfolios of financial instruments have dealt with changes from a reglementation, market and technology point of view. The mass capital has increased as a following of the new economy's flows and because of the important additional values from the stock market which have registered record after record. All of these causes helped the portfolio management named also the management of financial assets to enter into a most favorable environment. The research method used for this article includes studies about current legislations, guides, manuals and other specialized domestic or international well known literature. The study combined and compared also the results with the practical day to day situations. The main purpose of our study was to analyze the way how the accounting doctrine made the inclusion for these concepts but also for updating our knowledge of the risks arising in the moment when the financial products are used.*

**Keywords:** Financial instrument, portfolio, risk, investment, derivative, financial risk, transactions, accounting.

**JEL Classification: G11**

### **1. Content**

It is important to know if the market on which the usage of the financial instruments is new and crude in order to know their evolution, usually in this situation the market influence is negative. In these conditions concepts and models appear with the decisional role of an optimum selection of the investment methods and the objectives and hopes of the investor must match properly. The profitability and risk of a portfolio made from different financial instruments remains an

essential problem in the way of administrating the portfolio. Thus, in the following, we'll try to detail the important aspects regarding profitability and risk which, in our opinion, needs to be known by the investor.

In the explanatory dictionary of the Romanian language, the quality of being lucrative implies a possibility of profit or net income. The risk of a portfolio highlights the possible instability of future profitability of the portfolio. The reason of a company in the market's economy is the profit which represents the skills of a company reflected through profitability. The analysis of profitability shows that at the end of the financial year accounting, in a brief form, the efficiency of the whole economical and financial company's activity. A management instrument which shows the past and the present of a company is the analysis of profitability. This helps the administrators to form, in a competitive environment, the strategic objectives of developing a company. The future cash-flows and the discount rates are the main variables which need to be evaluated in the moment when the profitability of an investment is estimated. Taking the structure of the costs, capital and inflation in consideration, the investment in a portfolio of financial instruments is risky in the moment when the profitability is minimal or negative. The risk being tied to the possibility of the existence of a smaller strategic than the one provided.

In order for the progressive evolution of the company, to have a diversified activity and gain profit, the objectives of analysis which are directed must be taken in consideration, unlike strategic and risk. Following opinions expressed by those who study economy and those who work in this system, we can consider that there is a convergence of these, in other words, the risk in business is normal, an obvious and inevitable element in the world of business. With its volatilization confusion, inefficiency may appear and at the same time leads to an unusual behavior of companies. The studies show that it happened in totalitarian systems, where the risk is very small or even inexistent, because the economy is directed by the administrative sources. The quote of stock and the dividend influence in a direct way the profitability of the financial title. The probability of some incomes of the one who emitted the dividend as well as the politics of its dividend leads to the possibility of estimating the dividend over a year. The quotation of a stock share is evaluated by the events in the stock market as well as the one made by the eminent. The estimation of the action's risk is made regarding the modification of its sources and the estimated profitability.

The objectives regarding the profitability which helps at quantifying the portfolio's performance are: creating income, increasing the capital and the

combination between income and capital increase. Regarding the objectives of the risk, these are by the level of the risk (minimum risk, medium risk, high risk and very high risk).

**Profitability objectives:**

1. Creating the income – the standard indicator for creating the incomes is P.E.R (which is the relationship between the action's price and the dividend per action) which helps realizing a constant course of dividend acquittal;
2. Increasing the capital – represents the moment when the investor wishes to increase the invested sum initially by increasing the price variation which is detected in some moments of the market;
3. Income – capital increase – This objective is the most used by the investors and represents a combination between creating income and increasing the capital by purchasing dividends and estimating the title's values held in the portfolio.

**Risk objectives:**

1. Low risk - is the objective of the investors who use the principle of initial capital conservation, meaning that they wish to have a stabile investment and accordingly a low efficiency by assuming a low risk (i.e. treasury bonds or pensions funds);
2. Medium risk - equilibrates the risk and the efficiency for the most part of the investors aiming to obtain more efficiency than the investment with low risk;
3. High risk - characterises the investors with risk capital funds aiming to obtain the best efficeincy , as good as it gets, no matters the risks.This is the case of well prepared investors, with a fool inclination for risk , with long experience in the emerging markets, using them as alternative invetsments being also aware of the prices instability influences or the very start investments growing-up probability;
4. The highest risk - that situation wher the investor wants the highest efficiency and accordingly assumes the highest risk. This is a characterisite for sofisticated investors who manage speculative portfolio containing derivates financial instruments or complex financial instruments.

A probability of remediating the financial indicators of profitability and risk is financing based by issues of shares. This carries a double purpose, on one side the insurance of the necessities of financing the firm and on the other side satisfying the profit of the shareholders who invest in new actions.

## 2. Measuring the profitability in distinct moments

If we refer to the profitability of an investment (especially actions), this can be defined by the objective of the investor, this object being the one of getting rich. Measuring the rentability of an investment in distinct moments, it is discontinuous and represents the rate of growth set by the investor between the initial moment and the final one of every elementary period of time. In our opinion, measuring distinct moments implies that that period of essential time is chosen so that no monetary flow can be emitted during the time period which is taken in consideration. From an empirical standpoint, we'll choose a period of months, calculated online for an interval of reference. Regarding the monetary flows, these show at moment (t-1), or at moment t. If we have a dividend, this can be paid in the interval given by the journal. First of all, we can use the following formula:

$$R_t = \frac{C_t + Div_t}{C_{t-1}} - 1 \quad \text{where:}$$

$R_t$  = is the profitability at moment t;

$Div_t$  = is the dividend paid in the course of a reference period;

$C_t$  = is the course at moment t.

It can be noticed that if the dividend is paid at moment t, then this possibility of action is broken and cannot be taken into consideration in this case. Going further, we can give an example of an investor interested only in his business which he won't leave unproductive a few days or even months if he gives an annual yield. Measuring the profitability reflects the behavior of an active investor, so he will take into consideration a reinvestment of numeral fluxes. We can assume that adopting this reinvestment does not generate costs or taxes as the income does.

For the above the used formula is the following:

$$R_t = \frac{C_{t+1} + R_t}{C_t} \times \left[ \frac{C_t}{C_{t-1}} - 1 \right]$$

$C_{t-1}$  = is the first course of evaluation of dividends.

There are two ways to emit actions:



– actions emitted for selling, old shareholders or for agents who wish to buy rights of subscription with the purpose of raising the value of the social capital and the equity;

– actions emitted through the incorporation of reserves and then their qual splitting to the old shareholders with the old actions detained with the purpose of raising only the value of the social capital.

The effect which results from these operations is that of dilution (which is the diminuation of the action's value). Thus, the old shareholders can benefit from more actions which lead to the improvement of the financial situation of the firm as well as its image. The course variation during holding the shares is given by the profitability of an action. From this process, the shareholders will show interest during the course of actions and for the distribution of the profit based on dividends. This follows a balance between the own resources which help at developing the resources used for the wage money. A mistake in the approach is presenting the risk as being a normal thing, thus since forever the concept of risk has been an essential preoccupation for the investors.

In relative terms, the learning of a financial instrument, during the previous or future period is given by profitability. Thus in the calculation of the profitability we can identify two categories of rates, as are:

1. The retrospective rate of profitability (it represents the rate calculated based on a few datas registered regarding the collected interest, dividends and the courses of the financial titles, which are registered in statistical documents of the values stock):  $R = \frac{P_1 + D_1 - P_0}{P_0}$  where:

R= the rate of profitability;

P1= the course in which the title can be sold at moment t1;

P0= the course in which the title can be bought in moment t0 (the date of acquisition);

D1= the dividends or interests gained during the period of holding a title (primary financial instruments).

The calculus relation presented shows the following:

1. it doesn't matter the impact of the transaction costs and the increases of the stock;

2. another case (rarely met) is the cash in of the dividends exactly at the moment of selling an action;

3. last but not least the administration of the portfolio also needs to take into consideration the recovery of the spending resulted from the supply and process of the informations.

The course in which the title can be bough in moment  $t_0$  have the following relation:  $P_0 = \frac{P_1 + D_1}{1 + R}$  from which results that  $P_1 + D_1 = P_0(1 + R)$

The disadvantage of this kind of rate is the fact that it presents the behavior of the financial instruments from the past and the investor wishes these elements for the achievement of future investments. This disadvantage can be replaced by the date of the a priori profitability, which we shall further present in our research.

**2. The rate of a priori profitability** (it represents the calculated rate based on a few distributions of conditioned probability or conjunctural, in conditions of uncertainty specific of the financial instruments' market, associated to the dividends or savings and future courses of financial titles which thus become uncertain).

The formula for this rate is:  $R_m = \sum_{i=1}^n r_i \times p_i$  where:

$R_m$  = the medium profitability;

$r_i$  = the rate of profitability for every scenario;

$p_i$  = the probabilities of scenarios taken into consideration;

$i$  = the scenarios taken into consideration in estimating the profitability evolution;

$n$  = the number of scenarios.

We shall continue our research with presenting the calculus relation, of the total lucriveness of an action:  $R = \frac{D}{P_0} + \frac{P_1 - P_0}{P_0}$  where:

$\frac{D}{P_0}$  = the rate of remuneration through dividends;

$\frac{P_1 - P_0}{P_0}$  = the relative rentability given by the increase of the stock flow.

In certain conditions there is the possibility that the relation previously presented cannot be applied for analysis and evaluation because the inflation factor appears. Thus the relation must be transformed in real rentability, made possible through the elimination of the inflation influence or through the deflation of the relation elements.

Fisher's relation is the one which the deflation is made as such:

$(1 + R \text{ nominală}) = (1 + R \text{ reală}) \times (1 + R \text{ inflației})$  where:

R nominală= rentability in normal periods;

R reală= rentability in real periods;

R inflației = the rate of inflation.

From which also results the relation of rentability in real periods:

$$R = \frac{1+R_{\text{nominală}}}{1+R_{\text{inflației}}} - 1$$

From those presented we can gather that in the portfolio's administration it's important for us to be prepared with **performance indicators** and not the performance instruments calculus. In order to obtain indicators with real results it needs to be known very well the field of financial instruments and a very precise analysis of the market's evolution needs to be made. The investors who wish to obtain a profit as big as possible from administrating their portfolios call for projects which meet these requirements although they are far from being easy approaches. The classic theory's hypotheses are (Stoica Victor, Negru Titel, Ionescu Eduard, 2006, p. 100):

1. Making the portfolio by the lucrativeness – risk criteria;
2. Reporting the market's portfolio, made reference point for all agents on the market represented by the passive administration of the portfolios which focus on making a portfolio that reflects the structure of the market's portfolio;
3. The structure of the portfolio is modified thanks to the appearance of new, relevant informations which are perceived identical by the investors.

### **3. The risks which the financial instruments portfolio is exposed to**

Continuing our research, we shall present the dangers which the portfolios are exposed to and that is assuming some risks such as the investment risk. In a simple presentation, the risk "represents the level of uncertainty which accompanies the profit" (Nica Panaite, Iftimescu Aurelian, 2004, p. 171-172). Thusly, the investment in financial instruments is part of the resolution group in uncertainty conditions from which the following considerations arise (Micu Ghilic Bogdan, 2002, p. 139):

✚ dispersion and deviation are parameters with which the risks can be reduced;

✚ choosing the management and, respectively, assuming the risks depends only on the investor;

✚ instead of parameterization the uncertainty may be granted preferences consequences for events, defining fundamental objects election.

Here appears the notion of uncertainty which "consists in the partial or total admittance of the probability of realization of the possible results of an action" (Puiu Alexandru, 2007, p. 166). Factors with influence for the strategies adopted in the management of the portfolio (Stoica Victor, Negru Titel, Ionescu Eduard 2006, p. 105) are:

✚ *specific costs* – must be taken into consideration the costs of transaction, costs of information, costs of processing the information;

✚ *the specific level of informing* – every agent presents degree of informing, but there are investors who are considered disruptors, evaluating the titles in their own specific way;

✚ *the divisibility of the titles* – the opportunities of investing are not infinitely divisible which represents the opposite of the classic assumptions, the rated mobile values have the possibility of lowered divisibility due to a restriction in transaction– the operations of transacting are executed through packages of titles with a relatively high value. Those who enjoy the negligence of this problem are the agents who trade large quantities of titles;

✚ *the heterogeneity of rational behavior* – the differences between the available information, the investment horizons, the frequency of the interventions on the market of the different agents must be taken into consideration;

✚ *irrational behavior*, even if from the traditional point of view over the financial theory, this idea is a lie, a few aspects must be taken into consideration which cannot be named hypothesis of the profitability – risk relation, but are important as are the investment in the stock of a firm because the investor agrees with the finite merchandise. In statistical terms deviation (Vâlcu Vasilica, 2008, p. 211), the risk is evaluated through the method of the smallest squares which presents the following formula:  $\sigma = \sqrt{\frac{\sum_{i=1}^n (r_i - \bar{r})^2 \cdot p_i}{n}}$  from which:  $\sigma^2 = \frac{\sum_{i=1}^n (r_i - \bar{r})^2 \cdot p_i}{n}$

$\sigma$  = the deviation;

$\sigma^2$  = the dispersion of the rentability than average;

$r_i$  = profitability rates for every scenario;

$\bar{r}$  = average profitability;

$p_i$  = the probabilities for the appearance of scenarios taken into consideration;

$i$  = the scenario taken into consideration in the estimation of the probability of the profitability evolution;

$n$  = number of scenarios.

For the regression line we have formula no. 1:  $r_i^t = \alpha_i + \beta_i r_p^t + \varepsilon_i^t$

where:

$t$  – the term of which the variables  $r_i$  and  $r_p$  are measured;

$d$  – the regression line;

$r_i^t$  – the efficiency of the title  $i$  at the moment  $t$ ;

$\alpha_i$  – the efficiency of the title  $I$  for a nul rentability of the market. It overlaps with the section  $OA$  and constitutes the intersection of line  $C$  with the axis  $Oy$ ;

$\varepsilon_i^t$  – perturbation variable which quantifies the influence of some specific factors of titles  $i$ , over its efficiency.

Point  $B$  represents the efficiency of the titles combines with the efficiency of the market at the moment  $t$  and  $\varepsilon_i^t$  evaluates the vertical deviation of line  $d$  (the moment in which the perturbation exists).

$\beta_i$  – the volatility coefficient of instrument  $i$ .

$\beta$  este panta dreptei de regresie unde se formează un unghi cu axa  $ox$  și are următoarea formulă cu nr. 2:  $\beta_i = \operatorname{tg} \hat{u} = \frac{r_i - \bar{r}_i}{r_p - \bar{r}_p}$

If we amplify the denominator and the summation of all the angles which form is effectuated, outlining the parallel lines with  $Ox$ , using values of the instrument, different from the efficiency ( $r_i$ ), we have formula no. 3, (Prisăcariu Maria, 1999, p. 128):  $\beta_i = \frac{\sum (r_i - \bar{r}_i)(r_p - \bar{r}_p)}{\sum (r_p - \bar{r}_p)^2} = \frac{\operatorname{cov}(r_i, r_p)}{\sigma^2(r_p)}$

From the presented account relation results other formulas which we will present as such:

Formula no. 3 can be written on average and relation 4 results as such:

$$\bar{r}_i = \alpha_i + \beta_i \bar{r}_p + \bar{\varepsilon}_i$$

Further on we shall perform the decrease operation between formulas 3 and 4 and we shall square it, resulting in:

$$r_i - \bar{r}_i = \beta_i (r_p - \bar{r}_p) + (\varepsilon_i - \bar{\varepsilon}_i)$$

$$(r_i - \bar{r}_i)^2 = \beta^2 (r_p - \bar{r}_p)^2 + (\varepsilon_i - \bar{\varepsilon}_i)^2 + 2\beta_i (r_p - \bar{r}_p)(\varepsilon_i - \bar{\varepsilon}_i)$$

Therefore we get to:

$$\sigma_i^2 = \beta_i^2 \sigma_p^2 + \sigma_{\varepsilon_i}^2 + 2\beta_i \text{cov}(r_p, \varepsilon_i)$$

Because the relation between the specific perturbations of the instrument and the market are 0, then the last term is without value:

$$\sigma_i^2 = \beta_i^2 \sigma_p^2 + \sigma_{\varepsilon_i}^2$$

The last formula presents the unraveling of the total risk of the instrument ( $\sigma_i^2$ ), in a systematic risk and the diversified risk ( $\sigma_{\varepsilon_i}^2$ ). The first risk, the systematic one which cannot be removed from the investor through variation, appears as the result between the volatility coefficient of the instrument and the modification of the stock index.

If we have a portfolio which constitutes through two actions, the total risk is calculated from Markowitz (Cristiana Doina Tudor, 2012, p. 23), as such:

$$\begin{aligned} \sigma_p &= \sqrt{\sigma_p^2} = \sqrt{w_a^2 \sigma_a^2 + w_b^2 \sigma_b^2 + 2Xw_a Xw_b X \text{Cov}_{ab}} = \\ &= \sqrt{w_a^2 \sigma_a^2 + (1 - w_a)^2 \sigma_b^2 + 2Xw_a X(1 - w_a) X \text{Cov}_{ab}} \text{ or} \\ \sigma_p &= \sqrt{\sigma_p^2} = \sqrt{w_a^2 \sigma_a^2 + (1 - w_a)^2 \sigma_b^2 + 2Xw_a X(1 - w_a) X \sigma_a X \sigma_b X \rho_{ab}} \end{aligned}$$

The risk of the dangerous actions, which make the M portfolio is represented in CAPM through their covariance with the M portfolio. Thus the equation of risk – profitability for any risky action can be:

$$E(R_i) = R_f + \frac{R_M - R_f}{\sigma_{R_i}^2} \times \text{Cov}(i, M) = R_f + \frac{\text{Cov}(i, M)}{\sigma_{R_i}^2} \times (R_M - R_f)$$

The economical process runs in constant conditions and the average and the square average deviation represent famous statistical indicators. The theory of utility and the multi-objective decisions represent decisive instruments characteristic of incertitude, the random medium becoming problematic if the market on which the evolving financial instrument is young, the economical increases and decreases being important. In our opinion, an investor must take into consideration not only the notion of risk, but its structure as well, such as the systematic risk and the unsystematic risk.

*The systematic risk* is a market risk, it calculates through the beta coefficient and evaluates the way that the financial instruments act on the market, unable to be canceled through diversification, in economy it can be met as an aggregated risk and must not be confused with the systemic risk. Although this

risk can be canceled through diversification, we can say that an intervention in its composition can be made through increasing or decreasing the medium of the systematic risk.

*The unsystematic risk* can be canceled through diversification, practically being the opposite of the systematic risk and is specific for every financial instrument, thus this risk includes: the risk specific for every titles and the risk specific for the industrial branch (Vâlcu Vasilica, 2008, p. 215). Some investors anticipate an accentuated decrease of the market and wish to protect themselves against an important capital loss. They will turn to the portfolio insurance techniques. These are too part of the category of passive techniques of administration, because the investor, having defined at the beginning the rules of investment, doesn't modify them during the ownership of the portfolio, regardless of the later evolution of the market. The final performance of the portfolio can be known in advance for every final configuration of the market.

The simplest method of insuring the portfolio is known in the Anglo-American literature as the Tactical Asset Allocation. It consists in the automated readjusting of the portfolio's repartition between the monetary actions and the risky ones, by the market's evolution, without lowering under a certain level of profitability. The observation of the economical and stock cycles are constituted in signals regarding the comparative attractiveness and the riskiness of monetary actions and. This is a strategy of 'following' the market and is known under the name of trend follower. The insurance of the portfolio can be made a reality with the help of options. They are used by the funds with a guaranteed capital and allow the safe return of a part of the invested sum. Their use is attractive on a market with an accentuated volatile character, but it blocks the purchase of some significant gains when the market is in an increasing trend. The strategy for limiting risks, through allocating the funds between different types of investments (diversified on active classes) and the purchase of value titles released by different companies which activate in different sectors (the sector of diversification), or in other places. Framing all the actions in the same type of investment is a risky practice, diversification is considered a fundamental principle of healthy investment administration practices.

#### **4. Conclusions**

In order for the evolution of the company to be a productive one, to have a diversified activity and, last but not least, to get profit we must take into

consideration the objectives of analysis which are conducted towards differentiating the efficiency and the risks. Judging by the opinions stated by those who study economics and those who work in this branch, we can consider that there is a convergence between them and that is the fact making the risk in business as a normality, and after all an unavoidable element in the world of business.

The risks which must be accept when the value titles are traded are: the sacrifice of an immediate advantage or the absence of an immediate usage, in the exchange of some future advantages; the loss of an absolute and immediate advantage from the acquisition and the mastery of real goods or from the usage of a service against a future and uncertain advantage from the investment of value titles and the uncertainty over the value of a financial good which will be registered on a later date. With risks volatility, disorientation and inefficiency can be created and, at the same time, the risk can lead sometime to an unnatural behavior of the enterprises, as for example the studies shown that it has happened in a totalitarian economy, where the risk has been very low, even inexistent, because the economy is managed by the administrative resources. The quote of a stock action is evaluated based by the events on the stock market as well as the one created for the issuer. The risk's estimation of an action is made after the modification of its resources and the estimated profitability. The probability of some incomes of the one who has released the dividend, as well as the politics of dividends leads to the possibility of estimating the dividend after one year. A probability of remediation of the financial indicators: efficiency and risk, is financed on the basis of issuing an action, which has a double purpose, on being the insurance of the financing necessities of the firm's and, on the other hand, satisfying the need of profit of the shareholders who invest in new actions.

The derived financial instruments or the derivatives as they are also named have been created in order to protect against the inherent risks those who trade and to help them gain profit, but because they are complex instruments, there have been cases in which using them had negative consequences over the market and has lead to the apparition of a difficult problem such as the actual global financial crisis. It is important that these derived financial instruments are complex and don't need to be used in excess because they assume some risks which we need to know very well before trading with them. Therefore, even though the economical crisis has caused numerous negative effects, it highlighted the existence of risks



helping the economical agents at improving the coverage and evading methods of risks including the market risk, the credit risk, the liquidity risk and the value risk.

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## ECONOMETRIC MODEL OF MULTIPLE EQUATION OF DIFFERENT SHAPE

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### Summary:

Market economy has its own mechanisms which are subject to a continuous adjustment system through the action of specific objective laws. In this context the role and the importance of knowing the manifestation way of demand and offer law have defining implications about the operational management of economical agents, about the commercial politic decisions, with spread effects on economic-financial performances. A useful methodological solution is offered by the econometric models based on multiple equations through which it can be estimated not only the physical equilibrium volume for demand and offer of merchandise but also the equilibrium price. The use of multiple equations models formed in more working variant, inevitably presents one useful informational value and required fundamental decision which can allow economical agent to work in ending conditions of profit activity.

Considering as support the graphical representation from Fig. 1, the study of demand and offer law will be approached also by a modeled variant in which will be used different shapes of regression equations, as follows:

**Offer law = linear equation**  $\rightarrow \hat{y} = a + bx_1$

**Demand law = hyperbolic equation**  $\rightarrow \hat{y}' = a' + b' \cdot 1/x_2$

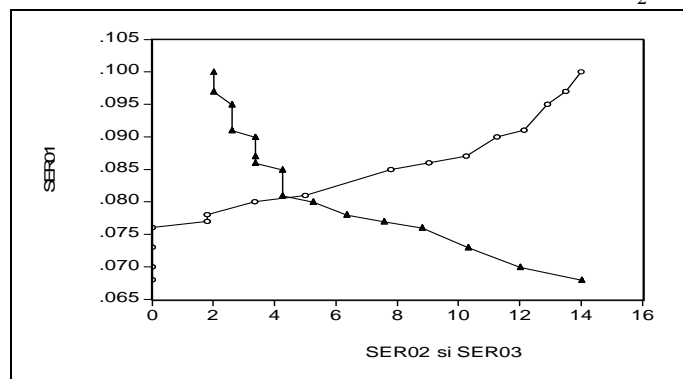


Fig. 1

**Offer law****Table 1**

Synoptic table results which attests the viability of parabolic regression equation as static modelled form of the correlation between price and physical volume of LCD monitors offer

Dependent variable: SER01 (Price) = $y$				
Method of smallest squares				
SER01 = 0,07243130411+0,001702470921*SER02 → $\hat{y} = 0,072431 + 0,001702x_1$				
Observation number: 16				
Variables	Coefficient	Standard error of the coefficient	t-statistic	Probability (threshold signification)
SER02 (Offer) = $x_1$ $b$	0,001702	0,000117	14,48986	0,0000
C $a$	0,072431	0,000978	74,03482	0,0000
Determination coefficient $R^2$	0,937488	Dependent variable average		0,083375
Adjusted determination coefficient : $R^2$ adjusted (revised)	0,933023	Standard deviation of dependent variable		0,009612
Average (standard) error estimation of regression equation: $\pm \hat{\sigma}_{y,\hat{y}}$	0,002487	Statistical information criteria Akaike		-9,038618
Square residue sum	8,66E-05	Statistical criteria Schwarz		-8,942044
Log likelihood	74,30894	F-statistic		209,9561
Statistical coefficient Durbin-Watson	0,563898	Probability or threshold signification for F-statistic		0,000000

**Table 2**

Real level series, estimated level series of the dependent variable (price) dependent by the physical volume of LCD monitors offer and extension of residual term (linear regression)

$n = 16$	Ser 01 Price (thousands EUR/piece) $y$	Estimated price values based on the regression equation $\hat{y}$	Residue values series $u = y - \hat{y}$	Extension residues $\pm \hat{\sigma}_{y,\hat{y}} = \pm 0,002487$ $-\hat{\sigma}_{y,\hat{y}} \quad 0 \quad +\hat{\sigma}_{y,\hat{y}}$
1	0,06800	0,07243	-0,00443	* , , ,
2	0,07000	0,07243	-0,00243	, * , ,
3	0,07300	0,07243	0,00057	, , * , ,
4	0,07600	0,07243	0,00357	, , , * ,
5	0,07700	0,07550	0,00150	, , * , ,
6	0,07800	0,07550	0,00250	, , * , ,
7	0,08000	0,07813	0,00187	, , * , ,
8	0,08100	0,08094	5,6E-05	, * , ,

9	0,08500	0,08571	-0,00071		*		
10	0,08600	0,08784	-0,00184		*		
11	0,08700	0,08988	-0,00288		*		
12	0,09000	0,09158	-0,00158		*		
13	0,09100	0,09312	-0,00212		*		
14	0,09500	0,09439	0,00061			*	
15	0,09700	0,09541	0,00159			*	
16	0,10000	0,09627	0,00373				*
Total	1,33400	1,33400	0,00000				

**Demand law****Table 3**

*Synoptic table results which attests the viability of parabolic regression equation as static modelled form of the correlation between price and physical volume of LCD monitors demand*

Dependent variable: SER01 (Price) = y				
Method of smallest squares				
Observation number: 16				
SER01=C(1)+C(2) *1/SER03 → $\hat{y}' = a' + b' \cdot 1/x_2$ → $\hat{y}' = 0,066743 + 0,066843 \cdot 1/x_2$				
	Coefficient	Standard error of the coefficient	t-statistic	Probability (threshold signification)
C(1) a'	0,066743	0,001097	60,86451	0,0000
C(2) b'	0,066843	0,003867	17,28733	0,0000
Determination coefficient $R^2$	0,955250	Dependent variable average		0,083375
Adjusted determination coefficient : $R^2$ adjusted (revised)	0,952054	Standard deviation of dependent variable		0,009612
Average (standard) error estimation of regression equation: $\pm \hat{\sigma}_{y,\hat{y}}$	0,002105	Statistical information criteria Akaike		-9,372897
Square residue sum	6,20E-05	Statistical criteria Schwarz		-9,276324
Log likelihood	76,98318	Statistical coefficient Durbin-Watson		2,105462

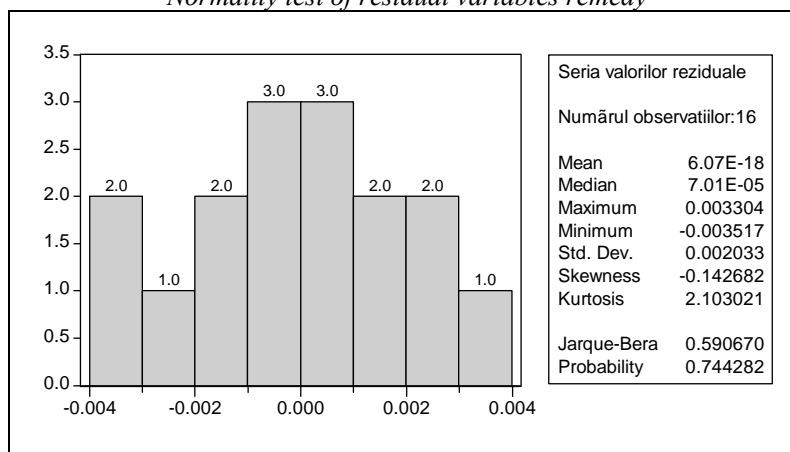
$$F - \text{statistic} = \frac{\sum(\hat{y} - \bar{y})^2}{k-1} : \frac{\sum(y - \hat{y})^2}{n-k} = \frac{0,001323858}{2-1} : \frac{0,0000620}{16-2} = \frac{0,001323858}{0,0000044286} = 298,9358$$

**Table 4**

Real level series, estimated level series of the dependent variable (price) dependent by the physical volume of LCD monitors offer and extension of residual term (hyperbolic regression)

$n = 16$	Ser 01 Price (thousands EUR/piece) $y$	Estimated price values based on the regression equation $\hat{y}$	Residue values series $u = y - \hat{y}$	Extension residues $\pm \hat{\sigma}_{y,\hat{y}} = \pm 0,002105$ $-\hat{\sigma}_{y,\hat{y}} \quad 0 \quad +\hat{\sigma}_{y,\hat{y}}$
1	0,06800	0,07152	-0,00352	* . . .
2	0,07000	0,07231	-0,00231	. * . .
3	0,07300	0,07323	-0,00023	. . * .
4	0,07600	0,07434	0,00166	. . . *
5	0,07700	0,07560	0,00140	. . . *
6	0,07800	0,07727	0,00073	. . * .
7	0,08000	0,07947	0,00053	. . * .
8	0,08100	0,08247	-0,00147	. * . .
9	0,08500	0,08247	0,00253	. . . *
10	0,08600	0,08670	-0,00070	. . * .
11	0,08700	0,08670	0,00030	. . * .
12	0,09000	0,08670	0,00330	. . . *
13	0,09100	0,09245	-0,00145	. * . .
14	0,09500	0,09245	0,00255	. . . *
15	0,09700	0,10016	-0,00316	* . . .
16	0,10000	0,10016	-0,00016	. . * .
Total	1,33400	1,33400	0,00000	

Normality test of residual variables remedy



**Table 5**

The comparative situation of static indicators which attests the measure of econometric viability model between price and offer correlation and also between price and demand

Indicators	Offer law Linear model	Demand law Hyperbolic model
Correlation report: $R$	0,96824	0,977369
Determination coefficient: $R^2$	0,937488	0,955250
Statistical coefficient Durbin-Watson	0,563898	2,105462
Average (standard) error estimation of regression equation: - absolute expression: $\hat{\sigma}_{y,\hat{y}}$	0,002487	0,002105
Average (standard) error estimation of regression equation: - relative expression $\hat{V}_{y,\hat{y}} = (\hat{\sigma}_{y,\hat{y}} / \bar{y}) \cdot 100$	2,983%	2,525%
Statistical coefficient Jarque-Bera	0,661530	0,590670
Probability associated to $J-B$ coefficient	0,718374	0,744282
$F$ -statistic	209,9561	298,9358
$F$ -tabelar: $F_{P; f_1=k-1; f_2=n-k}$ $P=95\%; f_1=k-1=2-1=1; f_2=n-k=16-2=14$	4,6	4,6
Probability (threshold signification) for $F$ -statistic	0,000000	0,000000
Statistical information criteria Akaike	-9,038618	-9,372897
Statistical criteria Schwarz	-8,942044	-9,276324

In the context of 2<sup>nd</sup> way of calculation, analyse of the results from the comparative situation of the statistical indicators which attest the viability of the two regression equations, allows us to state the following conclusions:

- price and physical volume correlation of the offer and price and physical volume of the demand are expressed into linear regression equation for the offer law and into hyperbolic regression equation for demand law:  $\hat{y} = 0,072431 + 0,001702x_1$  și  $\hat{y}' = 0,066743 + 0,066843 \cdot 1/x_2$ ;

- the viability of the models is confirmed by the fact that the correlation report is statistical certified, been considerable different from 0, in the sense that "F Criteria" (Fisher distribution law, for a 95% probability and the number of freedom degrees  $f_1=1$  and  $f_2=14$ ). Between the variables of the two studied correlation systems it is a significant interdependence relationship, from statistical point of

view, and powerful as intensity, because the correlation report is almost equal to 1,  $R_{yx_1} = 0,96824$  and  $R_{yx_2} = 0,977369$  ;

- the relative expression of the standard estimation error of regression equation is equal to 2,983%, respectively 2,525%, is supplementing the informational support to conclude that the models are valid, because they are small values compared to the very restrictive pick of 5%;

- the residuals extension are is between the plus/minus limits 2,145 of the average estimation error of regression equation ( $\pm 2,145 \cdot \hat{\sigma}_{y,\hat{y}}$ ), as per remedy law

Student, for a signification pick of 5%, bilateral disposed, and  $n - k = 16 - 2 = 14$  freedom degree, which confirm a correct econometric modulation of the studied correlation systems by regression equation:  $\hat{y} = 0,072431 + 0,001702x_1$  and  $\hat{y}' = 0,066743 + 0,066843 \cdot 1/x_2$  ;

- the parameters which localize the two regression equation present a statistical signification (are considerable different zero) as per Student remedy law with bilateral disposal of signification pick, confirming in this was the models viability;

- the error term values is distributed as per the normal repartition law with a probability of 71,84%, for offer regression equation and with a probability of 74,43%, for demand regression equation (certified by the statically criteria Jarque-Bera). Based on this probability which is higher than the minimum level of 60%, considered necessary for normality hypothesis acceptance, there is concluded that the econometric model with multiple equations is efficient from statistical point of view;

- The statistic coefficient Durbin-Watson present a value which is under the limit considered acceptable of 1,4 for the offer linear model (0,563898) and a value of 2,105462, very close to the idea measure 2, for the demand hyperbolic model. In these conditions there is concluded that between the residual term values of offer linear model take place a relative auto-correction process which can negatively influence the quality of the estimations. This consideration is certified also by the disposal shape of error term values in the residual extension which does not present an obvious alternation. In this econometric study context it is mentioned that the observations number ( $n = 16$ ) is relatively small and can be a cause of this phenomena;



The calculation of physical equilibrium model for demand and offer of LCD monitors and of equilibrium price, in the variant of different models representation, linear for offer law and hyperbolic for demand law, is as follows:

$$\text{Offer law: } \hat{y} = 0,072431 + 0,001702x_1$$

$$\text{Demand law: } \hat{y}' = 0,066743 + 0,066843 \cdot 1/x_2$$

$$x_1 = x_2 \rightarrow a + bx_1 = a' + b'/x_2 \rightarrow 0,072431 + 0,001702x = 0,066743 + 0,066843 \frac{1}{x}$$

$$\boxed{-0,066843 + 0,005688x + 0,001702x^2 = 0}$$

Results:

- the physical equilibrium volume for demand and offer of LCD monitors, for 2010 = 4,815 thousands piece.

$$\begin{aligned} x_1 = x_2 &= \frac{-0,005688 \pm \sqrt{0,005688^2 - 4 \cdot (0,001702) \cdot (-0,066843)}}{2 \cdot 0,001702} = \\ &= \frac{-0,005688 \pm \sqrt{0,00003235344 + 0,00045506744}}{0,003404} = \frac{-0,005688 \pm \sqrt{0,00048742088}}{0,003404} = \\ &= \frac{-0,005688 \pm 0,0220776015}{0,003404} = \text{două solutii} \end{aligned}$$

$$x^{01} = \frac{0,0163896015}{0,003404} = 4,815 \text{ thousand piece}$$

$$x^{02} = \frac{-0,0277656015}{0,003404} = -8,157 \text{ thousand piece}$$

**Note:** The 2<sup>nd</sup> solution for  $x$ ,  $x^{02}$ , it is not plausible and it is ignored

- equilibrium price = 80,63 EUR/piece.

$$\hat{y}_0 = a + bx = 0,072431 + 0,001702 \cdot 4,815 = 0,08062613 \text{ mii euro/buc . ; } 80,63 \text{ euro/buc .}$$

**Table 6**

*The comparative situation of equilibrium values for two variants of econometric modulation with multiple equations of offer and demand of LCD monitors*

Equilibrium values	Multiple equation model of parabolic type: - offer law = parabolic equation - demand law = parabolic equation	Multiple equation model: - offer law = linear equation - demand law = hyperbolic equation
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- physical equilibrium volume for demand and offer of LCD monitor	5,532 thousands piece.	4,815 thousands piece.
- Equilibrium price	81.00 EUR/piece.	80.63 EUR/piece.

Considering some differences, mostly insignificant, from statistical point of view, the compared results exposed above allow us to consider that the best equilibrium values are related to the multiple equations model which uses the linear equation for offer and hyperbolic equation for demand.

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**PART II**  
**MANAGEMENT & PUBLIC ADMINISTRATION**



## **SETTLEMENT OF PECUNIARY OBLIGATIONS BY COMMERCIAL PAPERS IN THE PERIOD OF CURRENT ECONOMIC CRISIS THE PROMISSORY NOTE**

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### ***Abstract:***

The development of international trade has had as a consequence the expansion of possibilities of paying debt arising from the contractual relations and by exploiting the function of a payment instrument of debt securities. In this context it can be affirmed that the payment instruments meet the monetary functions, meaning that the creditor of the payment in a legal relation may be sated by using such an inscription, or he could deliver himself such an instrument to the payment debtor, establishing to him the obligation to pay at maturity the amount of the contract.

**Keywords:** payment, payment instruments, debt securities, promissory note

### ***General aspects***

*Payment instruments* are inscriptions incorporating a determined monetary value entitling *their holder* the right and at the same time the possibility to obtain, basically, *immediate payment from the debtor*, at simple request.

The scope of payment instruments was often understood in a broader sense, in that it includes both bills and promissory notes. Or both incorporate in their content a claim for a period of up to 24 months and their settlement at maturity is subject to the solvency of the debtor.

Therefore, we are entitled to say that their owner has no certainty that at maturity he can acquire the amount mentioned in the title, which is why we share the view of the doctrine<sup>49</sup> according to which even in case such debt securities

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<sup>49</sup> O. Capatana, B. Stefanescu, International trade law treaty [*Tratat de drept al comertului international*], vol. II, special part, pg. 79;

would be issued with the clause “*in sight*” to receive immediate settlement *prevails their quality of debt securities* and not of payment instruments.

However, it is also undeniable the quality of payment instrument of such debt securities, considering their dual nature, meaning both debt securities and payment.

Therefore, in what follows we shall analyze the credit title represented by promissory note, in terms of its function as a traditional payment instrument, limited to its particularities in relation to the bill.

***Notion. Form requirements. Particularities***

The promissory note is also a valuable commercial title like the bill, but that has some particularities in the sense that though – in principle – same rules apply, it is simplified to the bill because it is a species of it, which does not make it more usable – in relation to deriving title – but it certainly raises serious problems, especially internationally.

The promissory note is regulated in the European continent, by the Geneva Convention of 1930, on bills of exchange and promissory notes, that in Title II, art. 75-78, expressly refers to the promissory note. Similar to the Geneva regulation, at national level, the promissory note is governed by the same law, Law no. 58/1934 on bills of exchange and promissory notes, also in Title II, art. 104-107.

In the legal system of common law, the promissory note is governed by the same laws as in the Continental system. Thus, the English law deals with promissory notes in Bills of Exchange Act, in Part IV, Section 83-89, and the American in Uniform Commercial Code, paragraphs 3-104 to 3-112 and both call it *promissory note*.

Similar to the rules of Geneva and legal systems of common law, provisions relating to promissory notes cover only specific aspects of these securities, which differentiates them from bills of exchange, which is why provisions applicable to bills of exchange apply also to promissory notes to the extent where there are not incompatible with them.

However, between the two law systems there are differences in the regulation of promissory notes, in that, while the continental law system considers the promissory note as a species of the bill of exchange, the common-law states that *promissory note* is an independent commercial paper.

A particular attention was given to the promissory note also by the New York Convention of 1988 on international bills of exchange and promissory notes,

using the same name as the legal system of common-law designating this title, *promissory note*.

Being still a commercial paper as the bill of exchange from which derives, the promissory note is used in domestic and international economic exchanges to comply on a voluntary basis, the pecuniary obligations.

Given that the Geneva and national regulation does not define this commercial paper, however, based on mandatory mentions that it should contain<sup>50</sup>, we can say that the *promissory note* is a document whereby a person named issuer or underwriter engages to pay a sum of money at maturity to another person named beneficiary or upon his order.

From the perspective of common-law states right, *the promissory note* is an unconditional commitment, written and signed by the issuer, in which he undertakes to pay to another person or to his order or of the owner, a sum of money at sight or at a fixed, determinable date in the future.

Compared to the bill of exchange that requires legal relationship between three parties, the drawer, drawee and beneficiary, the promissory note raises such relationships only between two parties, namely the underwriter issuer and beneficiary.

The regulations of bills of exchange law, both the continental and the common-law, does not confer any legal position to the one creating such a security, limited only to name it subscriber in the uniform system of Geneva and issuer in the Anglo-American, thus giving the legal position of the acceptor of the bill, which is why the promissory note is an acknowledgment of debt to the creditor and therefore a promise to pay<sup>51</sup>.

*Form requirements.* In relation to the provisions of the uniform continental law of the bill of exchange<sup>52</sup> the promissory note has to be issued in writing and comply with the substance and form requirements laid down by the regulatory<sup>53</sup>.

From the perspective of similar regulations of the states in the legal system of common-law the formalism of promissory note is not as rigorous, although they also require the written form of the title, not being enough that at the issuing of the

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<sup>50</sup> Art. 75 of the Geneva Convention of 1930 on the bill of exchange and promissory note; Art. 104 of Law no. 58/1934 as further amended, on the bill of exchange and promissory note;

<sup>51</sup> T. R. Popescu, International trade law [*Dreptul comerțului internațional*], ed. Didactica și Pedagogica, Bucharest, 1983, pg. 448;

<sup>52</sup> Geneva Convention of 1930 on the bill of exchange and promissory note;

<sup>53</sup> Art. 75 of the Geneva Convention of 1930 on the bill of exchange and promissory note;

promissory note its text comply with the law, if the issuer had no intention to draw it as negotiable title<sup>54</sup>.

In light of the same regulations regarding the bill of exchange<sup>55</sup>, it was held that in case where was drawn a bill of exchange where there is a person identity between the drawer and the drawee, the owner of the title can considered it as bill of exchange or promissory note – depending on his interest – because the document is not a bill of exchange for the law as long as it does not contain an unconditional order for payment addressed to another person, but a payment commitment that the issuer assumed in writing and unconditioned.

The answer to the regulations of the states in the legal system of common-law is similar to the situation where the title was drawn without giving the debtor or with the nomination of a fictional debtor, or a person without legal capacity, as long as it was accepted by another person because by filing the signature on the title, the acceptor is responsible with same conditions as the issuer of a promissory note.

In conclusion, regardless of the law governing it, the promissory note must contain a number of essential requirements, with differences characteristic to each regulation, as we show below.

*The term of promissory note* is specific to both systems of law, but only the one of Geneva considers it a prerequisite, while the bill regulatory of common-law states consider its name is not mandatory.

Consequently the Geneva Convention of 1930 on bills of exchange and promissory note states that the name of this commercial paper shall be recorded on the document examiner thereof, in the same language used for drafting<sup>56</sup>, similar provision contained also in the national legislation<sup>57</sup>.

*Unconditional commitment to pay.* By contrast with the bill of exchange, the promissory note does not contain a payment order addressed to another person determined but an obligation of payment that the underwriter issuer assumes at the date of issuing, expressed by the phrase “will pay” or other equivalent.

Payment commitment assumed by the issuer must be unconditional. Any condition that would affect the obligation to pay at maturity is deemed unwritten.

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<sup>54</sup> A. G. Guest, ș.a., op. cit., pg. 657;

<sup>55</sup> Section 5, paragraph 2 of Bills of Exchange Act;

<sup>56</sup> Art. 75, par. 1 of Geneva Convention of 1930;

<sup>57</sup> Art. 104 pt. 1 of Law no. 58/1934 on the bills of exchange and promissory note;



Unconditional payment obligation that the issuer of a promissory note assumed is regulated by the Geneva Convention of 1930 and the national legal system<sup>58</sup>, but also by the Anglo-American bill of exchange law<sup>59</sup>, both systems of law giving it the quality as essential requirement.

Therefore, to be worth as promissory note, the unconditional commitment to pay must be clearly indicated in the text of this title and shall not lead to the conclusion that it would only recognize a debt that the issuer agrees to pay at maturity, as in such a situation the document does not worth as promissory note but only an acknowledgment of debt subject to the common law.

*Indication of maturity.* Regarding the maturity of the promissory note we mention that in relation to the current regulations, both legal systems consider that this must be stated on the title.

However, while the Geneva regulatory has not imposed special requirements for the maturity, limited to specifying that it shall apply the rules of the bill of exchange<sup>60</sup>, the national legislation providing the similar<sup>61</sup>, the Anglo-American law has covered separately its maturity<sup>62</sup>.

Regarding the maturity of the promissory note, though the Geneva Convention expressly held to establish a legal presumption<sup>63</sup> where the maturity of the title was omitted, meaning that it is considered delivered on demand, regulation contained also in the national law<sup>64</sup>.

In light of the English regulations, the maturity of a promissory note can be established on demand<sup>65</sup> or at a fixed or determinable date in the future.

The doctrine held that there are differences of legal system between paying a bill of exchange and a promissory note on demand, in the sense that a bill of exchange payable on demand must be presented for payment within a short time of

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<sup>58</sup> Art. 104 pt. 2 of Law no. 58/1934 on the bills of exchange and promissory note;

<sup>59</sup> Bills of Exchange Act, in Great Britain, respectively Uniform Commercial Cod in the United States of America;

<sup>60</sup> Art. 77 of Geneva Convention of 1930;

<sup>61</sup> Art. 106 of Law no. 58/1934 on the bills of exchange and promissory note;

<sup>62</sup> Section 10 of Bills of Exchange Act specifies the situations where a bill of exchange is payable on demand, and Section 89 shows under what conditions are applicable to the promissory note provisions of Section 10, for Section 86 to provide maturity requirements of the promissory note;

<sup>63</sup> Art. 76 par. 2 of Geneva Convention of 1930;

<sup>64</sup> Art. 105 par. 2 of Law no. 58/1934 on the bills of exchange and promissory note;

<sup>65</sup> Referring to the maturity "*on demand*" provided by the Bills of Exchange Act, we state that although the text does not expressly provide, in reality payment is made "on demand" or "at presentation", like the bills of exchange;

its establishment, while the promissory note is issued as a collateral security to fulfill other pecuniary obligations<sup>66</sup> having from this perspective a longer period of time than of the bills.

As far as we are concerned we conclude that, considered from the perspective of the maturity “on demand”, to the promissory note – even if it is issued to produce interest until the date of payment – same rules apply to those in the bills of exchange under the influence of Anglo-American regulation. We support it because, on the one hand, the bills of exchange and promissory notes must be presented for payment within a reasonable time from the date of issue, and on the other hand, being intended to ensure other payments, in case of failure of such pecuniary obligation by the debtor, the holder of the promissory note may present it for payment immediately for the recovery of his claim.

Our view is confirmed by section 86, paragraph 1 of the Bills of Exchange Act, according to which in case a promissory note was sent by endorsement, it must be presented for payment within a reasonable time after endorsement. The need for presentation for payment of the promissory note is required for liability of the guarantor in case of refusal to pay by the issuer. So the requirement of presenting the promissory note submitted by endorsement, is stipulated in favor of the guarantor, on the one hand, must not be prejudiced by a delay of presentation for payment by the holder of the title, and on the other hand, must know in advance whether or not the issuer pays the amount of sum he engaged to pay in writing.

In light of the same regulations, the default to pay the promissory note within a reasonable time after its submission by endorsement, the guarantor is released from liability in case of default by the issuer.

Regardless, the provisions of Section 86 paragraph 3 of the English Bills of Exchange Law have held that a promissory note due on demand was negotiated and does not decede the good faith holder of the right of recourse against the guarantor, if it was not presented to payment within a reasonable time. The reason for that was stated in this way is justified by the fact that promissory notes may be issued as securities and therefore should remain negotiable as long as they are outstanding<sup>67</sup>.

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<sup>66</sup> M. Nita, op. cit., pg. 151;

<sup>67</sup> The English legislator’s opinion is based on solutions of common-law judicial practice, known that in this system of law jurisprudence is a source of law. As far as we are concerned we share the opinion that the European regulation is much clearer regarding the maturity of the debt securities providing for clear and accurate time for presenting to

*Indication of the place of payment.* In light of uniform regulation of Geneva, the promissory note must indicate the place where payment is to be made thereof, while also establishing a legal presumption of the place of payment if the issuer did not indicate the place of payment, the place where the title was created is presumed place of payment and the home of the subscriber<sup>68</sup>, provision that is also found in national law<sup>69</sup>.

The Anglo-American bill of exchange law states that, in principle, a promissory note must indicate the place of payment, but the lack of this indication does not affect its validity. Moreover, any promissory note that was given an address as the place of payment is valid and must be presented for collection in that place so as to be drawn issuer's liability in case of default at maturity<sup>70</sup>.

The requirement of presenting a promissory note for payment in the place expressly stated in the document is necessary also for the liability of the guarantor, if case the creditor holder acquired it through endorsement<sup>71</sup>, its responsibility remains attracted even if the place of payment was indicated by a simple note.

Regarding the indication of the place of payment in the title, the Anglo-American bills of exchange settlement stated that mentioning it on the edge and down the title, even if it was assumed by signature is not considered part of the commitment to pay.

*Beneficiary of payment.* Both legal systems provide for the condition of nominate the beneficiary of a payment of a promissory note, for such a document to acquire the attributes of this commercial paper. In case of transmission through endorsement is necessary to indicate the endorsee, respectively the person for whom payment is to be made or for whom the payment is ordered<sup>72</sup>.

The national legislation is similar to the one of Geneva<sup>73</sup>, and the Anglo-American legislation states that any promissory note is incomplete until physical

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payment or visa of the promissory notes and leaving to the judge assessing the fulfillment or not of the deadline for the forfeiture of pay and hence the term of regress;

<sup>68</sup> Art. 76 par. 3 of Geneva Convention of 1930;

<sup>69</sup> Art. 105 par. 3 of Law no. 58/1934 on bills of exchange and promissory notes;

<sup>70</sup> Responsibility of the issuer to honor the payment of the promissory note remains engaged for a period of six years from the due date, even if the title has not been presented for payment. For further information see Dudley Richardson, *Negotiable instruments and the bills of exchange act*, ed. a V a, ed. Butterworths, London 1980, pg. 191;

<sup>71</sup> Section 87, paragraph 3 of Bills of Exchange Act;

<sup>72</sup> Art. 75, par. 5 of the Geneva Convention of 1930;

<sup>73</sup> Art. 104 pt. 5 of Law no. 58/1934 on bills of exchange and promissory notes;

remittance of the document in which it was recorded the payment commitment, to the new beneficiary or holder<sup>74</sup>.

In the situation where a promissory note, governed by Anglo-American settlement, contains a payment commitment to the issuer itself, does not value as commercial document, but acquires such quality when endorsed to another person (special endorsement) or material remission of a third party (endorsement in white) because starting from that moment someone else gets paid<sup>75</sup>.

*Date and place of issuance.* Regarding the date and place of creating this title, the Geneva regulation held that are applicable the provisions of the bill of exchange, including legal presumption established with regard of the place of issue where it was not indicated appropriate in the sense of considering it as place of underwriting one shown next to the name of the issuer<sup>76</sup>.

The national legislation<sup>77</sup> has similar provisions to those of Geneva, while the Anglo-American law makes no reference regarding the mention in the title of the date and place of issuance, which is why their absence does not affect the validity of the title.

*Subscriber's signature.* Assuming the payment obligation under signature is an essential requirement of the promissory note, recognized as such by all systems of law and without which it does not worth as commercial paper.

Similar to the acquisition of any obligation arising out of a legal relationship and that which arises from a promissory note must be assumed under signature by the issuer. This time, by contrast to assuming any other obligations, assuming the one arising from a promissory note has dual significance.

First, the signature on title serves to confirm<sup>78</sup> the actual existence of a debt arising from a fundamental relation, similar to all legal relationships that generate pecuniary obligations, and secondly, to compel the issuer to pay the amount of debt of which amount was reproduced on the title, as debtor.

As per the issuer's signature filed on the promissory note, the national practice has not been established because this title, as the bill of exchange, has not been used on national territory after the war until 1990, and thereafter was not

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<sup>74</sup> Section 85 of Bills of Exchange Act;

<sup>75</sup> Section 83, paragraph 2 of Bills of Exchange Act;

<sup>76</sup> Art. 76 par. 3 of the Geneva Convention of 1930;

<sup>77</sup> Art. 104 pt. 6 and Art. 105 par. 3 and 4 of Law no. 58/1934 on bill of exchange and promissory note;

<sup>78</sup> We hold that the terminology is correct because the recognition of pecuniary obligation was made on assuming the effects of the fundamental report;

taken into account the judicial practice, which led to contradictory solutions of the courts. However, by decision no. 1 of February 3, 2003 issued by the Supreme Court of Justice on appeal in the interest of the law, it was held that it is sufficient handwritten signature of issuer - to the extent that it provides its individualization - to be fulfilled the legal requirement on the subscription of promissory notes.

Further, with the amendment to Law no. 58/1934 on bills of exchange and promissory notes, by GEO no. 39/2008 were removed the considerations of decision no. 1/2003 issued on appeal in the interest of the law and argued<sup>79</sup> that it would be clarified the requirement of signatures submitted on bills of exchange and promissory notes, in the sense that any such signature must include the clear name and surname of the individual or name of the entity, and also the handwritten signature of the individual and the legal representative or assignee of the legal entity which undertakes<sup>80</sup>.

As far as we are concerned we hold that by GEO no. 39/2008 was made rather a setback of the regulatory quality to the original text of Article 8 of Law no. 58/1934, as in its original form was also accepted the mechanical signature not only the handwritten, due to the fact that the text of the Geneva Convention of 1930 on bills of exchange and promissory notes – reproduced by national legislation – has been adapted to technological progress at the time.

In the same vein we argue that changing Article 8 of Law no. 58/1934 should consider a modern regulation that meets today's requirements on technique and information technology, having as guiding model the provisions of Article 5 letter k) of the New York Convention of 1988 on international bills of exchange and promissory notes, according to which the signature is valid both handwritten and in any other form.

#### ***Aval. Endorsement. Payment of the promissory note***

*General aspects.* Although the promissory note is a commercial paper different from the bill both by the number of parties that contribute to its creation and the lack of drawee, being precluded the formality of acceptance and introduced the one of presenting the visa to the issuer, however the regulation of Geneva and thus all systems of civil law that have taken it over have held that to the promissory

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<sup>79</sup> In the explanatory memorandum to the adoption of GEO no. 39/2008;

<sup>80</sup> Art. I, pt. 1 of GEO no. 39/2008, which amended Art. 8 of Law no. 58/1934 on bills of exchange and promissory notes;

note are applicable provisions relating to the bill to the extent not inconsistent with its nature.

Regarding the *endorsement*, which is defined as a legal act whereby the legitimate holder of that title, called endorser, send it to another person, named endorsee, through a written, dated and signed declaration on the title, followed by material remission of the document to the new purchaser, thus achieving to surrender all rights arising from the promissory note, being similar to that of the bill, we believe that it does not require further study.

Regarding the *aval* we can say that it is also a legal act whereby a person called guarantor undertakes to guarantee the payment obligation assumed by the underwriter issuer or guarantor of the promissory note, named avalisee.

Given the terminological distinction of persons who contribute to the creation of the commercial paper represented by the promissory note in relation to the bill, the regulation of Geneva<sup>81</sup> as the national<sup>82</sup> also have held that in terms of *aval*, to the promissory note are applicable provisions similar to the bill, with the mention that if the guarantor did not indicate the person for whom it guaranteed it is presumed that it did for the underwriter issuer.

Given the similarity of the procedure of *aval* of the promissory note with the bill, no further analysis is required.

*Payment.* The particularity of the payment regarding promissory note in relation to the bill is that without the drawee, payment is going to be made by the issuer as obliged to pay. Consequently, the formality of acceptance of the title was removed, and at maturity the promissory note has to be paid by the underwriter<sup>83</sup>.

Although the formality of acceptance of the promissory note was removed because its issuer is obliged to pay in the same way as bill acceptor, however, the promissory notes with maturities within a certain period from sight must be presented to visa of the issuer within one year from the date.

The formality of presenting the promissory note to visa shall not be confused with the one of acceptance, having nothing in common with it, the reason of this procedure being determining the moment from which the title chargeability is calculated<sup>84</sup>.

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<sup>81</sup> Art. 77 last par. of Geneva Convention on the bill of exchange and promissory note;

<sup>82</sup> Art. 106 last par. of Law no. 58/1934 on the bill of exchange and promissory note;

<sup>83</sup> In accordance with the provisions of Art. 78 par. 1 of the Geneva Convention of 1930 and Art. 107 par. 1 of Law no. 58/1934 on bills of exchange and promissory notes, the issuer of the promissory note is kept in the same way as the bill of exchange acceptor;

<sup>84</sup> O. Capatana. B. Stefanescu, op. cit., pg. 93;

Just like the bill, the maturity *at sight* begins to run from the visa date applied by the issuer in the title. The subscriber's refusal to endorse the promissory note is found by protest, which date serve as the starting point of the flow limit *in sight*.

In case of any refusal to pay the amount indicated on the title from the issuer, it is found by protest. Legitimate holder of a promissory note is relieved of the obligation of taming the protest of non-endorsement or non-payment, if the subscriber inserts therein the phrase "no cost" or "no protest".

As regarding the Anglo-American law bill of exchange, the issuer of a promissory note is held as bill acceptor<sup>85</sup>, applying to it, basically, the same rules.

So in light of this legislation, the legal status of the promissory note endorsed by the first beneficiary is similar to the bill drawn in favor of the drawer himself and endorsed by it<sup>86</sup>.

However there are still some differences between a bill acceptor and issuer of a promissory note, resulted from the fact that the acceptor is not the creator of a bill, while the issuer is the one who creates the title and the payment commitment of the acceptor is taken after the creation of the title, while that of the issuer occurs when creating it, as a result of its quality as creator of title.

Regarding the payment of the promissory note, the Anglo-American regulation provided that the issuer of the promissory note is obligated to pay it according the terms registered on title<sup>87</sup>.

By issuing a promissory notes, the issuer becomes liable to the legitimate holder thereof for all that follows the title<sup>88</sup>.

In principle it is not required to pay the promissory note to attract issuer's liability<sup>89</sup>. However, if a promissory note has no maturity at request, the issuer's liability is trained with the payment date listed in the title<sup>90</sup>, and in the case of a promissory note due on demand, its payment may be requested by the owner at any time from the date of creation and as such, the liability of the issuer starts from that moment.

Given that Article 77 paragraph 1 of the Geneva Convention of 1930 on bills of exchange and promissory notes, and Article 106 paragraph 1 of Law no.

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<sup>85</sup> Section 89, paragraph 2 of Bills of Exchange Act;

<sup>86</sup> *Ibidem*;

<sup>87</sup> A. G. Guest, s.a., op. cit., pg. 677;

<sup>88</sup> Section 57, paragraph 1 and 3 of Bills of Exchange Act;

<sup>89</sup> Section 87, paragraph 1 of Bills of Exchange Act;

<sup>90</sup> *Idem* Section 14;

58/1934 on bills of exchange and promissory notes provide that similar provisions to the bill of exchange in terms of payment and protest are applicable, further analysis is not required.

Accordingly we hold that it is not imposed any separate analysis referring to the possibility of payment of the promissory note by truncation, institution brought by GEO no. 39/2008, where were added Article 46 ind. 1, 46 ind. 2 and 46 ind. 3 in Law no. 58/1934 on bills of exchange and promissory notes applicable to that title, except for paragraph 3 of Article 46 ind. 1, which refers to acceptance.

*In conclusion*, given that financial blockades – during the current economic crisis – were caused by lack of liquidity at the pecuniary obligations level, taking into account that the issuance of a commercial paper – bill of exchange or promissory note – is not conditioned by the existence of available funds to the account of the drawer or issuer, such an obligation being imposed by the due date of the title, we conclude that the payment of pecuniary obligations can be performed without any hindrance through a commercial paper with a maturity of twelve months from the date of issue, period where it may move from one professional to another by endorsement, sufficient time to ensure liquidity for the deadline.

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2. Legea nr. 58/1934 asupra cambiei si biletului la ordin;
3. OUG nr. 39/2008 de modificare a legii nr. 58/1934 asupra cambiei si biletului la ordin;
4. Bills of Exchange Act, adoptat de *Marea Britanie*, adoptat în anul 1882;
5. Uniform Commercial Cod, adoptat în anul 1951 de *Statele Unite ale Americii* si revizuit in 1990, care a inlocuit Negotiable Instrument Law, adoptata in anul 1896.



## **TOWARDS A NONLINEAR APPROACH OF THE MODERN SOCIETIES**

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***Abstract:***

*The paper points out the impact of modern theory methods of synergetic over the analysis of sociology and economics. These methods are able to capture much more subtle and complicated issues on which the society rules are based. The society is a nonlinear system with a hierarchy of instabilities, entailing the occurrence of increasingly complex collective structures. The factors responsible for this innovative change are the fluctuations, the subjective elements or the unusual decisions which are basically neglected in the classic type models. Nevertheless, at the moment when the parameters of mechanisms related to the evolution and interaction between individuals reach a critical level, these non-essential innovative factors are encouraged and are able to overthrow the global order.*

**Key words:** synergetic, critical fluctuations, control parameters, slaving principle

**JEL Classification:** E17, E27, E62

Synergetic [1] as an interdisciplinary science considers that reality is non-linear and complex and the lower fluctuations or uncertainty factors are found everywhere. Non-linearity comes from the fact that component subsystems influence each other, so that their actions cannot be separated from those of their neighbors. From this point of view, development of nations, cultures, societies is not the simple statistical amount of individual actions, in which each individual is regarded separately. Moreover, socio-economic phenomena present distinct qualitative properties as against those of individual parts.

Classical models always lead to a fatalist behavior and to a strict dependence on initial conditions. Everything is given at the same time with the cause law which fully determines the system condition and its evolution. But the

modern theory of the nonlinear systems gives the possibility for the organization and unexpected evolution.

Synergetic comprises several analysis methods [3]. Some examples are given below.

Haken model – Slaving principle and order parameters [4], [5], [6]

From mathematical standpoint, the evolution of a complex system consisting of a high number of sub-systems is described by a set of variables  $u_i$  which varies over time according to the following relation:

$$\frac{du_i}{dt} = F_i(u_1, \dots, u_n; \alpha) + e_i(t) \quad (1)$$

where  $F_i$  are non-linear functions and  $\alpha$  is the vector of *control parameters*.

The uncertainty factors deriving from internal or external fluctuations are taken in computation by the random functions  $e_i(t)$ . The control parameters ( $\alpha$ ) are the slowly varying over time (internal or external constraints etc.). When one or several control parameters are changing, the former status of the system could get destabilized leaving room for a new status with distinct qualitative properties. An example in this sense is the laser. Another one is the fluid warmed at basis over a certain critical temperature. The four-footed animals could change their gait if surpassing a certain speed, or a group of individuals is set up over a certain value of communication parameter. A typical control parameter is the quantity of information stored at a society level. Below an optimal value, the information crisis leads to disorder, when the excess of information inhibits the organizational processes.

The previous examples show that the natural systems and social - economic systems which exceeded the critical threshold could be described by a lower number of variables. The *slaving principle* from synergetic proves a similar, much more general, situation: around the instability areas, the behavior of individual elements is determined by only few macroscopic measures, called *order parameters*. This is a consequence of cooperation between parties and of their orientation towards common directions. In view to explain this phenomenon, we shall present the mathematical model proposed by Haken:

The system consists of several equations like:

$$\frac{dh}{dt} = (\alpha - \alpha_c)h - h \sum_i g_i u_i \quad (2)$$

$$\frac{du_i}{dt} = -\gamma_i u_i + h^2 \quad (3)$$

( $\gamma_i$  are junction constants,  $h$  is the order parameter) where, for simplicity, fluctuations are neglected.

In critical moments, when  $\alpha \cong \alpha_c$ , the following condition exists

$$\gamma_i \gg |\alpha - \alpha_c| \quad (4)$$

allowing for approximately solving the equation if considering  $du_i/dt = 0$  ( $u_i$  is quickly absorbed). Thus, it results

$$u_i = \frac{1}{\gamma_i} h^2 \quad (5)$$

Here, one could observe that the first equation *follows* the second, in other words is *subdued* to the second. Finally, there is a single equation of evolution:

$$\frac{dh}{dt} = (\alpha - \alpha_c) h - h^3 \sum_i \frac{g_i}{\gamma_i} \quad (6)$$

In a certain sense,  $h$  describes the degree of order in the system. Therefore, Haken considered it as an order parameter. The technique of eliminating the variables with quick relaxation (adiabatic approximation) is called *the slaving principle* (Haken). Another formulation could be: in the instability moments, only few variables for the system evolution remain. These are called order parameters. The other one relax extremely fast to equilibrium values. On a research timeline, one could consider the variables with fast relaxation as being kept at their equilibrium values, these being strictly determined by the order parameters.

In Haken example, the respective equation with  $dh/dt = 0$  admits two different types of solutions (+) and (--), depending on the way  $(\alpha - \alpha_c) < 0$  or  $(\alpha - \alpha_c) > 0$ . We could identify the (+) and (--) status by imposing a totalitarian regime of right or left, while the modes  $u_i$  – the entirety of communication channels, such as written media, television etc.

Usually, the order parameters are quantities of collective nature, with any microscopic detail *subtracted* with a qualitative level different of the individual elements one. These macro-social quantities are *slaving* the individuals and groups behavior and are, on their turn, made up by their actions, more or less aware of the events significance [2]. The order parameters denote measurable quantities (for example, the electromagnetic field of a laser, the number of persons joining an opinion), but also qualitative characteristics (for example, the geometric shapes of patterns, the layouts in a society). The slaving principle provides a major advantage:

in certain conditions, close to critical areas, the system could be described by few collective variables only, which are changing by themselves, under close interdependence conditions. Thus, the high number of variables necessary in view to characterize the complex interactions at local level was diminished, a huge amount of information being compressed.

Typical relations between order parameters and individual parts are to be found in several humanistic sciences. Here are some examples: *Language* is an order parameter. It is preserved much longer than an individual or than a nation is changed over time by individuals. On the other side, a child is learning the language and is formed within it. WE are hereby observing a circular causality. Another order parameter is the *number of persons with a certain opinion orientation*. Any individual is influenced to change his opinion proportionally with the number of those already having a new opinion. For a well integrated group, the order parameter is the *lifestyle* of the group that the participant is adopting and envisages it permanent achievement. In terms of normative acts, we have to remind the set of laws which, at least in a democratic country, are adopted by its citizens. By means of laws, the society is solving individuals' conflicts, favoring a certain behavior type. Another order parameter refers to the *scientific theories* called by Thomas S. Kuhn as paradigms. Theories are built up by scientists and students are learning from them. As such, they are slaved by theories and concepts.

Social systems are, generally, very complex. Therefore, instead of considering the system evolution by taking into account each and every individual factor, we would be rather interested in its dynamics close to instability. According to slaving principle, there are only few quantities in these areas able to characterize the macro-social dynamics in a simple but comprehensive manner. This is, in fact, the phenomenological method proposed by Haken: further to practical identification of order and control parameters set, phenomenological equations are written where order parameters are the variables and the control parameters are the constants. Slowly changing the control parameters entail spectacular phenomena: the system is loosing its stability and shifts to new situations characterized by the occurrence of new parameters or by sudden changes in the values of former parameters. In most cases, several new types of situations are finally possible and only low fluctuations, as subjective elements of changes, determine the choice of the situation at the unstable moment of transition.

**Weidlich model [10]**

A quite different model is the one proposed by Weidlich, which is explaining the collective behavior of migrations or of public opinions formation, starting from the micro-level of individual's decision. Weidlich does not pay attention directly to certain collective variables and phenomenological equations, describing the evolution of macro-social quantities average values in the presence of fluctuations. He is rather studying a prototype individual, perceived as statistical exponent of the collective behaviour. The model is thus focusing on building up the probability that someone choose a specific behaviour alternative. One could observe that, once this probability found, subjective factors generating uncertainty or disturbances are already taken into account. The macro-social level refers to the evolution of the number of persons with certain behavior. The equations characterizing the collective situation take, this time, into account the general probability of finding in the society at moment  $t$  a number of  $n$  persons with certain behavior.

**Other models**

A more complex phenomenological model takes into account all the variables characterizing individual parts. The variables are altogether included in the *situation vector*  $q$ , slaved on its turn to a number of non-linear equations with control parameters.

*Allen* and his collaborators [9] applied this model for analyzing the urban regions development. From micro-social standpoint, the evolution of population in a town local area is mathematically described by non-linear differential equations, whose terms refer to economic capacity and production, etc. of each region. In Allen's view, the development of an urban region results from the dialogue of determinist equations of inter-actions between the town regions and a wide range of disturbances outside the description model. In the instability moments, disturbances amplify and lead to town restructuring, so that its structures are not resulting from a certain *global optimization*, from certain functions of *collective utility*, but are due to successive instabilities close to bifurcation points. Allen's model reveals the way in which, starting from the same original distribution, different urban structures could be developed.

**The studies on neuronal networks** or on iterative strategies (games) iterative provide an original way of characterizing liberal social processes, where

an individual is gathering step by step the necessary information in view to reach optimal decision. The individual perceives the reality in his own way and afterwards filters the information in order to make a decision. This decision depends on the expected success level and on his preferences. There is one question arising: is he able to realize if the decision taken is optimal? Normally, an individual does not know if the change perceived in his close environment is due to his action or to other changes in the system. This type of imperfect acknowledgement ensures an uncertainty in making optimal decisions, so that, though a person's behavior follows a fixed strategy, it could entail unexpected collective dynamics, due to the impossibility of perfectly connecting the behaviors of all society members, as actually expected [8].

Human behavior is dynamically modeled, step by step, without being deduced from general principles as in case of classic theories. The individual is allowed to continuously reassess his decisions and preferences. The society evolution could be computer assisted simulated.

An example of simple iterative model, taking into account individual strategy, was developed by **B.A.Huberman**.

It considers a group of interacting persons proposing themselves to cooperate or not in view to produce a collective asset. Each member is reassessing his decision with a certain ratio. The choice depends not only on the currently perceived situation, but also on his expectations on how this choice would affect the collective asset and the others actions in the future. Though he cannot directly observe the efforts of his neighbours, the individual has the opportunity of knowing the collective asset value at any moment in time and, consequently, to accurately realize the share of members who are actually cooperating [11].

When setting up his action strategy, the individual has two types of expectations:

a) The future of the collective behaviour is directly influenced by his choice, in inverse proportion with the group size. Thus, if  $f_c = n_c/n$  is the share of members actually cooperating at present and  $n$  is the group size, his action of cooperating (or not) would stimulate the cooperation (or not) of an additional number of members  $f_c/n$  during each period  $1/\alpha$ .

b) The interactions effect felt by the other members as a follow up to his decision is lasting a limited time  $H$ .

These expectations are leading to a rational strategy of conditional cooperation. Individuals cooperate if they perceive the cooperating share  $f_c$  as



exceeding a certain critical value,  $*f_{crit}$ , for which the benefit they expect in the future becomes positive.

Likewise, an uncertainty is introduced between the share of those proposing themselves to cooperate  $f_c$ , and the share of those actually cooperating,  $*f_c$ . Several possible causes exist in relation with this uncertainty. For example, a member could try, though it is not sure that he will succeed to contribute due to unpredictable impediments. On the other side, he could finally contribute, though it is not the case, due to limited rationality. In this situation, for a fixed value  $f_c$  there will be several possible values for the share  $*f_c$ . Since  $*f_c > *f_{crit}$  is the cooperating condition for a member, it results that a certain probability  $r_c(f_c)$  exists that an individual would contribute to the collective asset, presuming, at that moment, that  $f_c$  members trying to cooperate exist in the society.

The probabilistic nature of action, arising from the diversity of beliefs or from limited rationality, leads to spectacular collective phenomena. For example, full cooperation could persist in the groups with too large size to sustain it indefinitely. Similarly, total non-cooperation could unexpectedly arise within groups with predictable cooperation. Increased uncertainty and diversity is shortening the time towards unexpected transitions.

The previous models show that a social - economic system consisting of actors with even very simple preferences and decision criteria has a complex behaviour, often unpredictable, due to the sequence of instabilities it is forced to cross over when local random factors become significant.

This approach is somehow solving the philosophic problem of freedom and necessity: in fact, necessity is installed when the system turned on a certain branch of the bifurcation, though low (insignificant) deviations from average values, deduced from the non-linear equations of the theory, could occur. Moreover, freedom means the system possibility of choosing in the neighborhood of bifurcation points. The choice is determined by internal decision makers, insignificant, or by the presence of uncertainty which, at that moment, amplifies and entails oscillations at global level between several possible situations. Instead of being continuous, the evolution is rather arborescent, depending on history, on all steps taken by successive choices. At this moment, Onicescu raise a qualitative issue with significant importance for the social system: the internal decision maker is the individual able to become aware of the existing situation. The development rather appears as a desired evolution than a random one, alongside with

decreasingly effects of the uncertainty arising from limited rationality or imperfect knowledge.

### **Conclusion**

The classical approach of socio-economic phenomena always leads to fatalistic trajectories and a strict dependence on initial conditions. Everything is given with the causal law which determines the condition of the system and its evolution. But modernist theories allow the possibility of organizing and unexpected developments.

The main approach which explains the behavior of the modern societies is that of Haken focusing on the macro level interactions. Social-economic systems can be characterized by considering the influence of macroscopic variables (order parameters) upon the individual parts with their interactions. Order parameters refer to collectivity, groups, institutions or various types of social decisions closely interdependent with the individual actions. In instability moments, it occurs that only few order parameters completely characterize social and economic evolution, without being necessary to appeal to microscopic factors. Thus, the reality can be described in a simple and comprehensive manner - the slaving principle in the theory of synergetic.

At upper floor there are control parameters depending on outside constraints or variables changing in time. Those parameters can be steady „macroscopic structures” (government, institutions, group norms) appeared by need to keep control or general order. Society fossilizes as far as bureaucracy develops or increases the number of control parameters.

Creativity, restructuring and uncertainty appear especially in the groups where individuals do not know each other very well to adopt together decisions by transfer or contagion. They are rather autonomous, but have interpersonal influence relations.

A complementary approach is that of Weidlich explaining the collective behavior of migrations and of the public opinion from the micro level of individual decision. Equations that characterize the collective situation consider this time the overall probability to find  $n$  people with a certain mode of behavior.

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## **SOME FDI DISPARITIES WITHIN THE EU REGION**

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### ***Abstract:***

*It means at least performance and competitiveness taking part to a global activity for which political, economic and technological borders vanish as quickly. The foreign direct investments (FDI) define an economic strategy type that belongs to an entity either investing in a new plant or establishment, or purchasing an already existing assets lot that belong to another enterprise, i.e. non resident one. This entity does complete or replace its foreign trade activity by producing (often producing plus selling) goods and services in another country (called the host country) than the home one.*

*It is neither financing, nor consumption facilities brought in by FDI, but productivity growth, technological modernization, the creation of an export capacity indispensable for a healthy growth potential and the creation of new jobs; furthermore, non-debt generating FDI is a key factor in improving the country's external balance of payments (EBP).*

*Last, but not least, FDI is equally accused of being chronically unequal all over, so completing a kind of 'capitalist inequality' for the today world. This is nonetheless for the today Europe, as well.*

**Keywords:** foreign direct investments (FDI), economic growth, employment, multinational companies (MNC); direct investments abroad (DIA).

### **1. Some introductory remarks**

This is actually dealing with two FDI types. The one is building-producing new assets by non-residents – and this displays similarities with the home investments-- and the other is purchasing already existing assets by the same non-residents in the host country – and this broadly classifies as the *mergers-acquisitions* category. On the other hand, FDI differ equally from the *portfolio type*

*investments* – the last stop on a pure market acquisition, whereas FDI include their further interests on management controlling, and on capital transactions between different establishments of the same company.

As for the EU, the EU27 formula will be used in this paper for here identifying the largest area related to this regional Organization. As for another detail, there is to make the difference in this paper at least between international investments of EU27, as a distinct entity – that are supposed to develop fully outside the EU27 area – and the cumulated international investments developed by all the 27 member countries – that include even significant developments within the region; a region in which investment relationships developed between member countries are as international as the ones between member countries and countries of the rest of the world. In another development, all individual countries, all the more EU27 develop on both FDI – international investment inflows -- and *direct investments abroad*<sup>91</sup> (*DIA*) – investment outflows, made by residents in the international area. Despite opposite senses, the two flows prove related to each other as for another rule and both statically and in their dynamics. Finally, they are considered to cumulate for the *international investment* of a country, so of the Union (EU27).

Last, but not least, just mentioning that this paper founds itself and develops on data and basic comments provided by statistics<sup>92</sup> – calculations, syntheses and conclusions belong to the authors of this paper<sup>93</sup>.

## **2. The FDI flows were recovering in 2011, after the fall of 2008-2010<sup>94</sup>**

The classical trade looks less significant for services than it is for goods. So, when the services trade was raising during the last decade its weight in the intra-Union total trade beard not quite important changes. Despite that, the services trade related FDI rose more rapidly than their other part, the one related to goods and to conventional trade. And, as the result, the services related part of the FDI flows obviously raised in the total FDI flows, as concomitantly with the service related to international trade [ECB/Eurostat 2011, 2012].

It is in 2011 that the FDI flows of EU27 origin seemed recovering for the first time after the crisis. The *direct investments abroad (DIA)* from EU27

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<sup>91</sup> Also called sometimes “outward FDI” by Eurostat, other papers and even in the below Figures.

<sup>92</sup> Especially *Eurostat* and UNCTAD

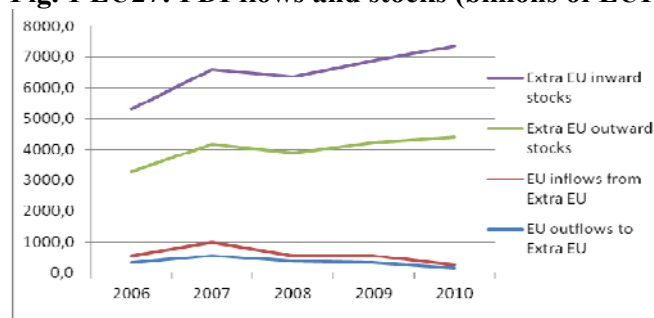
<sup>93</sup> The content of this paper was extracted from the POSDRU /89/1.5/S/62988 report paper.

<sup>94</sup> ECB 2012

increased for the first time in four years up to 154% as compared to 2010, whereas FDI were more than double than the previous year (117%). But despite such a favorable dynamic of the EU27 region, the previous 2008-2010 downturns were yet far from being totally recovered. In fact, all the world-wide FDI flows were staying underneath their record high of 2007.

The same year 2011, the same EU27 FDI level rose even as compared to the rest of the world, the way that a kind of global recovery was so announced. As more deeply analyzed, this was especially thanks to *investments of special targets (IST)*.

**Fig. 1 EU27: FDI flows and stocks (billions of EUR)**



Calculated on the UNCTAD's data

Earlier in 2009, the EU27 *DIA (outward FDI)* were lowering by 17%, due especially to 'other capitals', an item that was continuing this trend in the following 2010, meaning -54%, as firstly caused by securities purchasing outside EU27. As on the *FDI* opposite side, a slight 2009 recovery was followed by a sharp downturn in 2010 (-56%), as for a 'mirror' dynamic of the other *DIA* (Figure 1). Securities purchasing, as well, plus other investing procedures were playing their role in this, but there might equally be noticed, in context, a pretty different behavior of the *reinvested profits* since 2008: they stay positively evolving. The return to the investments stocks was rising on both inside (*FDI*) and outside (*DIA*) the region (EU27), in 2010, as compared to previous periods, but stayed obviously lower than in the previous 2007.

EU27 saw all its *international investment* flows enough affected by the global economic and financial crisis. Both *FDI* and *DIA* have fallen down in 2010 to their half levels of the previous 2009. And similarly to the same 2009 period, the 2010 *DIA* downturn was arising from the geographic mainstream formed by the US (-75%, down to EUR 20.9 billion) and Switzerland (down to EUR 0.9 billion).

Concomitantly, in 2010 there was to be noticed an abrupt DIA flows reduction to the 'offshore' areas (e.g. offshore placements in the Central America), down to EUR 5.3 billion, viewed as a true *disinvestment* process by analysts. Pretty the same on the FDI inflows side -- the same foreign investment country and region partners with important flow reductions: US (-61%), Switzerland (-67%) and an 'offshore' total disinvestment of EUR 7.8 billion. Plus, here adding the important role played by the IST part [UNCTAD/IFS /2012]. A meanwhile international investment repositioning of EU27 was equally to be noticed. *Brazil* tripled its direct investment flows to the region during the 2008-2011 intervals and, besides, this country got the top DIA destination of EU27 in 2010, against the old and longtime position hold by the US.

*Russia* took a different (negative) behavior on this point, vis-à-vis EU27, than the other international investment top country partners of the last. Simply, Russia was another EUR 2.7 billion '*disinvestment target*' of EU27 in 2011. And that when the US', Switzerland's and offshore establishments' come-back up to cumulating as high as 54% of DIA and 73% of the EU27's FDI -- as related the whole (rest of the) world and total EU27's international investment flows.

As for *Canada*, similarly vis-à-vis EU27 as international investment partner, a 2010 disinvestment on the DIA's flow sense was followed by a 2011 recovery through which this investment outflow came back up to EUR 12.4 billion. As on the other FDI sense, Canada was still the second top investor country-region in EU27 with EUR 23.9 billion in 2010, then went down to the quarter level of this (EUR 6.8 billion) in the next 2011 [UNCTAD/IFS /2012].

The *East-Asia* geographical investment relationships of EU27 seemed less affected by this crisis. Actually, except for the double FDI-DIA disinvestment on the *Japan* trajectory from EU27, 2010 came with recovery signs on this neighborhood, e.g. *China* (+EUR 17.5 billion as FDI) and *India* (+EUR 12.0 billion as FDI) – plus similar dynamics on both investment country partners for DIA from EU27. Nevertheless, the EU27's top FDI country sources of the East Asia remain in 2011 *Hong-Kong* (EUR 6.5 billion) and *Japan* (EUR 5.4 billion).

As one more interesting example, *Australia* was directly investing in EU27 as high as EU 14.9 billion (10% of the total EU27's world-wide FDI) in 2010, then a EUR 1.9 billion disinvestment in the next 2011 came to reverse this previously (2009) built EU27-Australia investment partnership's performing [UNCTAD/WIR /2012].

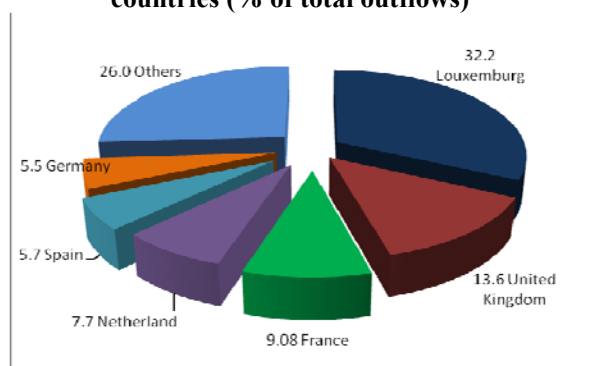


### 3. The EU27's DIA<sup>95</sup>

It is well known that *international investment* flows (FDI and DIA) are likely to vary as year by year, and this is especially due to their *mergers-acquisitions* important part. As for EU27, *Luxembourg* did hold as high as 36% of the whole EU27's DIA amount yearly average of the 2009-2011 interval – see also an 85% IST ratio in the total Luxembourg's investments for the same time<sup>96</sup>[UNCTAD/IFS (2012)]. The fact is that in 2010 the total Luxembourg's DIA amount outside EU27 was lowered to the half of the previous 2009 corresponding amounts, but the country stayed the EU27's top investor member country outside the region. Undoubtedly, this stays related either to that the Luxembourg's top DIA recipient countries are the *Bermuda Islands*, *US* and *Switzerland* (pretty similarly to the whole EU27 region's situation, as seen above), or to the significance of the country's financial sector, as so demonstrated [ECB/Eurostat 2011 & 2012].

The other significant example as EU27 member country is the *UK* – this is for a major fall of (outside the region) DIA, where important disinvestments did occur in 2010 on the *US* and *Canada* partnership relationships, as parallel to redirecting the same country's international investment flows to *East Asia*, *Australia* and *Brazil*.

**Fig 2. EU27: DIA on annual averages of the 2008-2010 by member countries (% of total outflows)**



*Calculated on the UNCTAD's data*

<sup>95</sup> There is the difference is to be made between the EU27's FDI-DIA and the total FDI-DIA performed by all member countries of the same area – the intra-EU27 FDI-DIA are here subtracted.

<sup>96</sup> Netherlands and Hungary are other examples of the EU27 member countries with important IST investment amounts. Both States prefer to exclude these amounts from their official statistics.

**A moderate growth of EU27's stocks in 2010** - in 2010, the FDI-DIA stocks of EU27 have increased by 13% and 12%, as respectively, whereas the previous 2009 year the same dynamics had been 10% and 6%, as respectively [UNCTAD/WIR /2012].

**North America keeps on the top recipient of the EU27's DIA** - in the 2010 year end, the *North American* region was the top recipient of the EU27's DIA with 34% of the of the year. Apart of this, the US had EUR 1,195 billion; meaning 28% of the total corresponding EU27's DIA amount, but a shrinking trend (see of -5.7% in 2010) was also becoming obvious. *Switzerland* [UNCTAD/IFS (2012)] was the second EU27's DIA recipients, as already mentioned above and this may be given by its geographical proximity to the region. In 2010, this country had 14% of the EU27's DIA stocks, as predominantly in its financial and insurance companies. The third recipient country of the EU27's DIA was *Canada* and this country hold 4.8% of these stocks at the end of 2010.

The EU27's DIA stocks in *Brazil* increased as high as by 73% between 2008 and 2010, as a newly designed interest that Europeans got for this country target. Besides, as for the *East Asian* country destinations for the EU27's DIA, two mentions ought to be made. First, in 2010 *Singapore, Hong Kong* and *Japan* gathered a half of the corresponding amount for the whole Asia in 2010. Second, and certainly in the same context, *China* totalized a stock of EUR 75.1 billion from the EU27's DIA in the same year end, so over passing what *South Korea, India* and *Indonesia* had gathered together [UNCTAD/IFS (2012)].

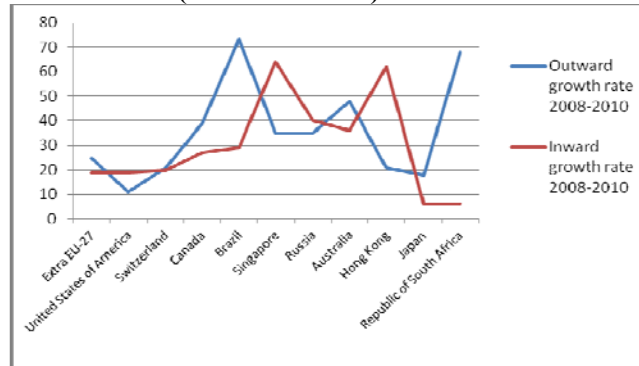
As for the African destination of the EU27 DIA, in 2010 South Africa (EUR 92.2 billion), Nigeria (EUR 34.5 billion) and Egypt (EUR 24.4 billion) were dominating. The EU27's DIA stocks in South Africa so rose by 19% the same year and this country was staying in the top-10 of the investment country partners of EU27 [UNCTAD/WIR /2012].

### **5. The US stays the major stock-holder of the EU27's FDI**

In the 2010 year end, the *US* were contributing to the FDI stock of the EU27 region with EUR 1,201.4 billion (41% of it), plus this contribution so strengthened. These American investments were predominantly targeting the *financial, insurance*, but also *manufacturing* sectors, the last for *metal processing* and *machinery producing*, as in detail. The second country position in this FDI order was *Switzerland*, again, with a total stock of EUR 365.4 billion on the EU27 land in 2010, meaning 10% higher than in 2009.

See also other representative EU27 DIA stockholder countries' cases, like *Canada* and *Japan*, that hold together 14% of the EU27's FDI stock in 2010, so 4% more than in the previous 2009. But really representative for this period dynamic of the EU27's FDI were countries like: *Hong Kong* (+51%), *Singapore* (+34%) and *Brazil* +21% [UNCTAD/IFS (2012)].

**Fig.3 EU27: Top-10 of FDI-DIA country sources-destinations (Billions of EUR)**



Calculated on the UNCTAD's data

**6. The service activities with their dominant weight in the EU27's FDI**

The stock structure of the EU27's FDI<sup>97</sup> stayed roughly unchanged in 2009, plus EU27 keeps an active international investments balance over the rest of the world, at least on its larger sectors. Structurally, as well, *services* are the top sector of both DIA and FDI – see 57% and 63% weights in the DIA and FDI stocks, as respectively, plus these weights were either slightly increasing, as compared to the previous 2008, or approaching corresponding weights in the real economy.

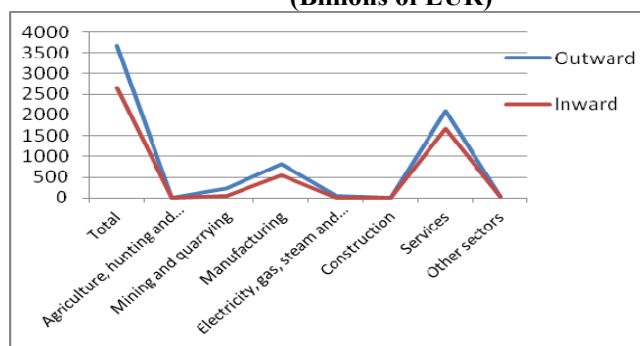
Nearly two thirds of these service located DIA-FDI stocks of EU27 at the end of 2009 belonged to the *financial* and *insurance* sub-sectors, as in detail. Both of them were significantly increasing in 2009, whereas in facts all the services sub-sectors were more or less positively evolving and pushing up *international investment* growth for the region, but the services for traded goods (e.g. maintenance-repairs for road vehicles), information and telecommunications that were DIA-FDI stocks reducing.

In the *manufacturing* sector, the year 2009 brought decline on both: DIA (-4%) and FDI (-5%), and this sector went down to 20% of the total international

<sup>97</sup> See the NACE REV.2 classification.

investment stocks. This was pretty similar for the *constructions* sector, where the investment stocks declined by about one quarter in 2009, as actually their ever highest decline, as obvious in Figure 4.

**Fig.4. EU27 : FDI stocks, on activities in 2009 year end  
(Billions of EUR)**



Calculated on the UNCTAD's data

#### 7. The net revenue recovered in 2010

Following the successive 2008 and 2009 downturns, the FDI-related *net revenue* in EU27 roughly recovered in the next 2010, as associated to returns on DIA and FDI stocks performing at 6.9% and 5.2%, as respectively.

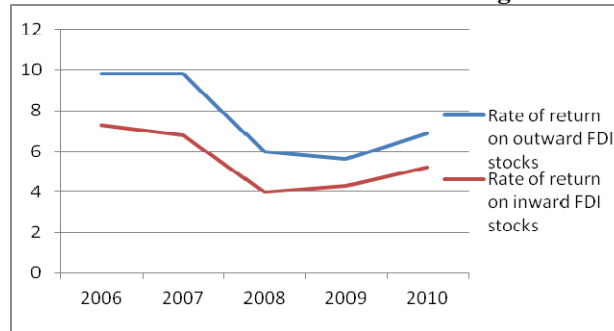
The *net revenue on investments* of EU27 increased by 36% in 2010 and so balanced nearly the whole cumulated deficit of the previous years. The FDI-related amounts paid to ex-EU27 States went up to EUR 139.5 billion in 2010, as higher than the old 2007 record level. As for the opposite, the net DIA-related revenue of EU27 from the rest of the world was EUR 111.6 billion the same year, namely 43% more than in the previous 2009. There was so resulting a positive external balance of international investments related revenue as high as 0.91% of the 2010 region's GDP, and this positively evolving as compared to the previous 2009 (0.61% / Figure 5).

**Fig 5. EU 27: FDI related revenues during the 2006-2010 interval (Billions of EUR)**



Calculated on the UNCTAD's data

**Fig 6. EU27: Returns on international investments during the 2006-2010 (%)**



Calculated on the UNCTAD's data

**8. Finally, about foreign companies<sup>98</sup> and their performing**

The European Union (EU27) is certainly a top international investor entity world-wide – so is the role played by the European foreign companies. However, the *inside the Union* scale of activities controlled by the EU27 companies was larger than the one of *outside the region* in 2004. The part of the *employment* in

<sup>98</sup> Eurostat (EBC 2012 [http://epp.eurostat.ec.europa.eu/statistics\\_explained/index.php](http://epp.eurostat.ec.europa.eu/statistics_explained/index.php)) defines foreign companies as *working on other countries' territory, than the home country of the company, but the same home country seems to keep some institutional control on them*. Shortly, such a company (firm) accounts jobs and business turnover (and other performings, as well) related to the specific foreign investment in the host country. As the result, statistics provide data on investments themselves, the foreign companies detail on these for outlining the local impact of the foreign investments. These last data serve both the host and home countries for both faces of the same impact and performance. So EU27 knows, at least, its international investment (DIA) impact, as well as the one perceived from the rest of the world.

EU27, as by EU27 foreign companies within the same EU27 area, was as high as 57.7% on average that year – although the average related to a list including both a minimum of 34.5% of the total employment in Portugal and an opposite maximum of 81.2% in Austria.

So was the story of the EU27 companies within the region on *business turnover*: a 54.5% average part that relates to an interval between 50.9% in Germany and 89.9% in the Czech Republic. Portugal is an exception on such a scale: foreign companies of outside EU27 were controlling as much as 65.5% of the country's home employment [ECB/Eurostat 2011 & 2012].

As another basic rule and pretty similarly to international trade, foreign companies get more active in host countries neighbouring the home (original) country – see companies from France in the neighbouring Belgium; from Spain in Portugal; from Czech Republic in Slovakia; from Germany in Austria; from Greece in Cyprus; from Sweden in Finland and so on. Despite all these, the major destination of German international investments (DIA) and firms is the US, as for both employment and business turnover – this is for understanding the truth of the highest activity of European foreign firms as on the Northern American soil, namely 38% for employment and 57% for business turnover, as respectively; plus, the US was holding about 91% of these percentages.

In the terms of business turnover, once more, the services sector was mainly targeted by EU27 foreign companies within the region – see 54.7% of the one of total activities, followed by manufacturing industries with 40.9% of the total activities. Of which, Finland is the exception of reversing this simple order in favour of manufacturing, as targeted by the EU27 foreign companies. As in terms of employment, the EU27 foreign companies within the region had (conversely) 54.8% on manufacturing and 41.0% on services.

As on the services' structure, *trade-related services* keep the highest rates of both employment (47.6%) and business turnover (67.2%) – with another important differentiation as between 10.4% in Greece and 62.7% in Finland, as for employment, whereas for business turnover the same stretches between 12.9% in the same Greece and 88.3% in the Czech Republic. *Transports and telecommunications* come on the second position as services' component for employment, whereas *business intermediaries* do the same for the business turnover.

There is also to be mentioned an obvious by country differentiation of the two above analysed impacts – there equally exist negligible and substantial impacts

throughout the region. As for instance, German foreign companies are the most generous employers abroad, as compared to foreign companies from the other EU27 member countries, whereas Finland is the top EU27 country for perceiving employment performed by European foreign companies – see 13.9% of the total employment in this country; and Finland is here followed by Austria and Germany, both with about 11% of employment related to foreign EU27 companies, whereas at the other end of the same scale, the Czech Republic's employment in EU27 foreign companies was only 0.3% of total and the same for Portugal with 0.6 [ECB/Eurostat 2011 & 2012].

### **9. Concluding remarks**

The EU27 region is both an important international investor and complying with the international rules and aspects of investment and capital transfer. FDI and DIA are linked together – a link all over provided by multinationals, rather than by government policies. The top international investor countries providers and recipients – US, Canada, Japan and so on – are the same for EU27. However, some changes in the international investment flows are resented in the last period – e.g. in favour of newly performing countries like China and Brazil --, but the most important change tries to indicate a slight recovery vis-à-vis the recent world-wide economic and financial crisis – e.g. returns and revenues on both FDI and DIA; employment and business turnover performed by foreign companies.

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## **IMPROVING ACCESS OF SMES TO THE PUBLIC PROCUREMENT MARKETS**

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### ***Abstract:***

*This paper focuses on the issue of participation of Small and medium-sized enterprises (SMEs) in public procurement in Romania, taking into account that this market it is a key factor for stimulating economic growth, contribute to economic recovery, job creation and innovation. SMEs in Romania receive only 27% of public procurement. This percentage is lower in relation to both EU average of 38 %, and with their own contribution to the economy (45% of gross value added).*

*This paper provides overviews of the main barriers to entry for SMEs into the public procurement markets, as well as a series of measures designed to support their access to a greater proportion. Facilitating the access of small and medium-sized enterprises in public procurement markets can help them to exploit the huge potential of creating jobs, growth and innovation, while allowing contracting authorities to widen the supplier base, which has positive effect of increased competition for public contracts.*

**Keywords:** public procurement, small and medium-sized enterprises, barriers to entry, contracting authorities, tenders

**JEL: D44, H57, E60**

### **Introduction**

The Europe 2020 strategy considers public procurement as an important tool to improve the business environment and to enhance the innovative performance of firms. Also, by encouraging environmentally friendly procurement is supported the transition towards a low-carbon economy and carbon efficient in terms of resource use.

Public procurement in the EU accounted for 18% of GDP in 2011, and 11% of GDP in Romania. In terms of total contract value secured, European SMEs

accounted for about 34% of public procurement in the 2006-2008 period, which is 18 percentage points lower than their overall share in the economy, as calculated on the basis of their combined turnover (52%)<sup>99</sup>. SMEs from the period of 2002 – 2010 were responsible for creating over 85% of all new jobs in Europe, with micro-enterprises alone responsible for 58% of total net employment growth<sup>100</sup>

Despite the fact that SMEs play a particularly important role in Romanian economy they are under-represented in public procurement contracts. Small and medium-sized enterprises in Romania get only 27% of the value of public works contracts, this percentage is low compared to the EU average of 38%, as well as their contribution to the economy (45% of the gross value added)<sup>101</sup>.

Developing a more SME-friendly approach to public procurement will allow SMEs to make the most of their potential for job creation, growth and innovation. An increased involvement of SMEs into public purchasing will also result in higher competition for public contracts, leading to better value for money and efficiencies for contracting authorities.

SMEs have often been described as the ‘engine of the economy’ and there has long been recognition of the small business sector’s contribution to a competitive economy<sup>102</sup>

In Romania, SMEs account for 99.7 % of all enterprises, 56 % of gross value added, 67 % of employees within the business<sup>103</sup>.

For Romania, the lower contribution of the SME sector is due to the weaker performance of micro-enterprises comparative with the EU average (see Table 1).

SMEs perceive public procurement processes as complex, costly and time-consuming.

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<sup>99</sup> Evaluation of SMEs’ access to public procurement markets in the EU, Final Report, GHK,2010,[http://ec.europa.eu/enterprise/policies/sme/business-environment/final\\_report\\_2010\\_e](http://ec.europa.eu/enterprise/policies/sme/business-environment/final_report_2010_e), pag.26

<sup>100</sup> EIM. (2011) Do SMEs create more and better jobs? Available at; [http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/index\\_en.htm](http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/index_en.htm)

<sup>101</sup> Informative sheet SBA – Romania – 2010/2011 European commission Enterprise and industry. pp.7

<sup>102</sup> Loader, K. (2007). The Challenge of Competitive Procurement: Value for Money Versus Small Business Support. Public Money & Management, 27 (5), 307-314.

<sup>103</sup> Balan M., Balan Gh., “Can SMEs in developing countries resist crisis? An analysis on Romania’s case in transport industry”, Vol. II “Republica Moldova: 20 de ani de reforme economice”, Editura ASEM, Chisinau – 2011, pp.62-66, ISBN 978-9975-75-588-7, 2011

Although SMEs are not explicitly discouraged from bidding for public procurement contracts, the procedures and practices used in many tenders disadvantage SMEs over larger competitors.

Table 1: Key indicators for SMEs in 2008

	Number of enterprises			Employment			Value added		
	Romania		EU27	Romania		EU27	Romania		EU27
	Number	Share %	Share %	Number	Share %	Share %	Bill-ion euro	Share %	Share %
Micro	475.536	89,6	92,2	993.079	24,9	29,6	7	14,4	21,2
Small	45.131	8,5	6,5	840.848	21,1	20,6	8	17,8	18,5
Medium-sized	8.348	1,6	1,1	843.021	21,2	17,2	9	20,5	18,4
<b>SMEs</b>	<b>529.015</b>	<b>99,7</b>	<b>99,8</b>	<b>2.676.948</b>	<b>67,2</b>	<b>67,4</b>	<b>24</b>	<b>52,7</b>	<b>58,1</b>
Large	1.527	0,3	0,2	1.304.963	32,8	32,6	22	47,3	41,9
Total	<b>530.542</b>	<b>100,0</b>	<b>100,0</b>	<b>3.981.911</b>	<b>100,0</b>	<b>100,0</b>	<b>46</b>	<b>100,0</b>	<b>100,0</b>

Source: Annual report on small and medium-sized enterprises in the EU, 2011/12, Rotterdam, September 2012, ECORYS

### 1. Difficulties faced by SMEs in accessing public procurement

Despite actions taken at both national and EU level, there are still many obstacles which discourage SMEs from responding to tenders.

The main difficulties are:

- *The lack of stability of the Romanian public procurement legislation*

Despite de fact that the Romanian public procurement legal framework is harmonized with the specific European *acquis communautaire* it was subject to multiple and substantial amendments and still present's inconsistencies on key relevant topics.

- *The lack of knowledge and skills for bidding*

SMEs lack knowledge about the correct procedures for bidding.

Tender forms and guidance are often worded in specialist, unclear and overly complex jargon

SMEs often are not well-acquainted with public procurement language and procedures, and may face more difficulties than larger organizations when looking for relevant opportunities and drawing up tenders.

- *The high costs associated with participation in public procurement*

Competitive bidding is generally expensive and time-consuming for business: for small businesses these costs can be prohibitive, effectively barring them from competing.

SMEs generally need more time to prepare competitive offers due to staff constraints.

Since many tendering costs are fixed, SMEs face disproportionately high costs in comparison with larger enterprises.

- *The lack of transparency in public procurement*

Information is particularly hard for SMEs to obtain, as they do not normally have the capacity to conduct extensive research for new tenders.

Limited transparency from the CAs in wording of award communications, unclear technical specifications or unclear answers to request of clarifications

SMEs in general and micro companies or startups in particular are interested in smaller value contracts but do not want to be overburdened with paperwork.

These are contract that are not subject to the EU directives rules and consequently are not subject to advertising. Without advertising it is impossible for the companies “outside the loop” to know about those business opportunities.

- *The lack of trust in the public procurement process*

A certain degree of lack of trust from the tenderers on the manner the CAs define and apply the selection and qualification criteria;

- *Qualifications and Selection Criteria difficult to accomplish*

SMEs interested in public contracts are excluded *de facto* from public procurement contracts simply because they do not have the capacity to tender for the whole contract.

Public contracts tend to require extensive professional, technical and economic qualification criteria, which individual SMEs cannot always fulfill

Disproportionate turnover requirements for proving financial capacity are often an enormous obstacle to SME access to public procurement.

Heavy administrative burden required from EOs for the preparation of the tender response (e.g. multiple hard-copies of the tender documentation, low value-added formalistic paperwork, difficult and bureaucratic way of communication with CAs, etc.). In some cases, such administrative burden is a key reason for EOs to not participate in tenders, especially for lower value of contracts – due to the risk of being rejected / disqualified.

- *Long payment periods in public procurement contracts and late payment* by public authorities also discourage businesses to participate in public procurement opportunities.

- *The use of the „lowest price” as the main award criterion –*

A major barrier in doing business with the public sector for SMEs may be the culture of awarding contracts based on price before quality, which biases procurers to favour larger and more experienced tenderers.

A reason why the „economically most advantageous tender” criterion is less often used by the Romanian CAs is that the relative weighting of this criterion is more difficult to be formulated and justified, and thus to obtain approval on it by UCVAP<sup>104</sup>

This (i.e. the low prices) indicates that the current Romanian market conditions determine EOs to compete strongly on prices – however, on long term this may lead to a negative impact on the willingness of bidders/tenderers to compete in public tenders.

## **2. Supporting SMEs access to public procurement markets**

In order to strengthen its procurement system to be capable to effectively face the crises, the *Romanian* authorities should:

- *Improve the transparency and discipline in public procurement*

are factors that increase competition for works, supply and service contracts and raise the number of bids per contract/procedure.

Transparency can improve access to public procurement opportunities through disclosure, publication and dissemination of information on available tenders.

- *Improve internal control within the organization of contracting authority*

Improving control over public spending is an absolute necessity, some authors point out “Lack of control or organization lead in most cases to the emergence of conditions conducive for the manifestations of fraud, taking advantage of the weakness of the system”<sup>105</sup>.

- *Further develop e-procurement system*

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<sup>104</sup> European Commission, Directorate General Regional Policy Assessment of the Public Procurement System in Romania, Final Report, August 2011

<sup>105</sup> Emilia Vasile, Ion Croitoru, Daniela Mitran, “Risk management in the financial and accounting activity” in Internal Auditing & Risk Management, Anul VII, NR. 1(25), Martie 2012, pp.23

The Electronic Public Procurement System (SEAP) represents a key element created to facilitate the enforcement of the basic principles of the Romanian public procurement legislation – transparency, supporting free and fair competition and equal treatment. The relative limited capabilities and flexibility of SEAP may discourage some of the CAs from using it – the inquired CAs reported difficulties in using SEAP. Moreover, not all CAs are currently recorded in SEAP, or not all CAs use the system

SEAP needs an urgent and in-depth assessment and major further improvements in terms of new data fields, IT basic system functionalities, performance, availability and support to end-users<sup>106</sup>

- *Increase the level of administrative assistance / guidance towards SMEs in their preparation of their response to public tenders*

The elaboration by ANRMAP of standardized tender documents and providing the CAs with specific training and guidance for: use of better and more standardized tender documentation templates and practical examples.

Furthermore, clarity and increased disclosure of guidelines and documentation can decrease time needed to submit bids – particularly prohibitive for SMEs – thus saving them valuable time and money.

- *Reduce the administrative burden*

Obligation for contracting authorities to accept self-declarations as a first step; only the winning bidder must then supply the documentary evidence for the selection criteria; documents which have already been submitted to the same contracting authority within the past four years and which are still valid shall not have to be re-submitted.

Further simplification can be achieved through standardized documents such as the European Procurement Passport, which should be recognized by all contracting authorities and widely promoted among economic operators, in particular SMEs, for whom they can substantially lessen the administrative burden<sup>107</sup>

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<sup>106</sup> European Commission, Directorate General Regional Policy Assessment of the Public Procurement System in Romania – Final Report (Part C & D), 29 August 2011 pag.23 ,<http://www.anrmap.ro/sites/default/files/>

<sup>107</sup> Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on public procurement <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:52011PC0896:EN:NOT>

- *Direct payment of subcontractors*

Ensuring equal terms to subcontractors by including in the standard tender documents a provision requesting the contracting authority to pay directly the subcontractor, subcontractors which are often SMEs in case of a payment delay by the main contractor.

- *Encourage collaboration and association with other SMEs or large companies in order to submit joint bids*

- *Divide larger contracts into lots*

Contracting authorities can make contracts more accessible by dividing them into smaller 'lots' and by simplifying the financial and technical requirements, at least at the start of a tendering process. Dividing contracts into lots is a useful means of addressing a lack of capacity among some SMEs to access particular public sector procurement opportunities.

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## **CRIMES RELATED TO THE PROFESSION OF MEDIC**

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**Abstract:** a comparative study on the penal responsibility of the medical profession in respect of the form of employment, private practice or employed by the government.

**Keywords:** medical profession, rights, obligations, penal responsibility

Exercising the profession of medic is the right of an individual, of Romanian citizenship, who has a medical diploma, issued by medical university from Romania or from abroad, recognized and validated by Law<sup>108</sup>

Exercising the profession of medic is endorsed by the Board of Medics from Romania and licensed by the Ministry of Health, accordingly to the procedures stated by Law<sup>109</sup>.

The profession of medic must prevent diseases, promote, maintain and recover individual and community health as its main task is to insure public health<sup>110</sup>.

In the same time, by exercising his/her profession, the medic must prove availability, honesty, devotion and respect to human being<sup>111</sup>.

Line 2 of art. 6 states that the medic is not a public employee due to its humane and liberal exercise.

As the Law states, the medic must be graduated of a university degree medical institution, recognized by Law, and the professional freedom gives the opportunity to the medic to take initiative and decision and to assume

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<sup>108</sup> The medical profession can be performed in Romania by foreign medics, in they fulfill the legal prerequisites and bases on reciprocal agreement between Romania and other countries (art.370 of the Law n.95/2006, Title XII regarding the exercise on the medical profession, organization and function of the Board of Medics from Romania)

<sup>109</sup> Law n.95/2006, Title XII regarding the exercise on the medical profession, organization and function of the Board of Medics from Romania, published in the Official Journal of Romania, Part I, n. 372 of 28.04.2006

<sup>110</sup> Law n.95/2006, Title XII regarding the exercise on the medical profession, organization and function of the Board of Medics from Romania, art. 374, pct.1.

<sup>111</sup> Ibidem, art. 374, pct.2

full responsibility during the exercise of the medical act<sup>112</sup>.

Exercising the medical profession can be done only with the prior liberal profession licensing by the Ministry of Health, only if certain prerequisites of the Law are fulfilled<sup>113</sup>.

The legislator established in the content of the Law certain aspects in respect of the incompatibility and unworthy of the exercise of medical profession, also in respect of the liberal practice license of medical profession and in respect of the initiation, organization and function of the Board of Medics from Romania.

The Law regarding the exercise of the medical profession impeaches as a criminal act, punishable by penal law, the exercise of the medical profession by an individual without the proper qualifications.

This article does not include certain proper penal sanctions, but it refers to other penal law regulations<sup>114</sup>.

In respect to the sanction regime, it should be emphasis that the punishment for this type of criminal behavior, is the one established by the Penal Law, better said, the punishment for "illegal exercise of a profession" <sup>115</sup>.

The crime in question is considered committed only at the point when it's proven that such medical profession was exercised by an individual without the proper qualifications and such danger for the social relations defended by the Law, was produced, underlining the importance of the need for several acts to be fulfilled in order to consider them as an act of exercise<sup>116</sup>.

The juridical object of the criminal act stated by the Law is the social relationship regarding the regime of exercising the medical profession only under the strict legal prerequisites, the penal protection reflecting over the initiation and development of these relations.

Also, under certain circumstances, the protection includes the social relationship over the physical integrity and health of the individuals to whom the profession incriminated is exercise.

The juridical object will exist only if the action in question is illegally exercise by a medic to an individual (for example, when an individual is operated on by an unauthorized person).

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<sup>112</sup> Ibidem, art.375, pct 1

<sup>113</sup> Ibidem, art. 379, pct.1

<sup>114</sup> Eliodor Tanislav, Nicolae Conea, Constantin Gheorghe, Mihail Conea, Crimes punished by penal special law, Publisher Semne, Bucuresti, 2000, pag. 388

<sup>115</sup> Art. 281 of the Penal Code

<sup>116</sup> Ibidem 7

The author (the immediate active subject) of the crime is clearly stated by art. 41 as any individual, since the Law does not stipulates any special prerequisites for him/her, and so it is not circumstanced. However, the author of this crime can be a generalist medic, if he/she will performs gynecology maneuver or naturist medicine without being certified in the field, or the medicine plant sellers<sup>117</sup>.

In order for the crime to be committed, certain acts are required, specific only for the profession of medic, to be fulfilled by a person without the proper certification, even if they are committed by a nurse or a biotherapist.

If several individuals agree to exercise this profession although they do not fulfill the legal prerequisites, in the same place, at the same moment, each one will be prosecuted for separate offence and author of the same crime, and not as coauthor of the other offenders.

The passive subject is the state, as the representative of the society concerned by the exercise of the medical profession under certain legal conditions, and in the event of abusive and illegal exercise towards an individual he/she will be the secondary passive subject.

The objective aspect of the offence, regarding the material element, will consist in the actions of the offender to perform medical acts without holding this official charge. Practicing this profession by an individual without prior licensing means he/she performs typical acts of the medical profession (treatments, surgeries etc.)<sup>118</sup>.

From the legal provisions referring -the term "practice" we draw the conclusion that isolated acts that have slight connection to the medical profession do not fulfill the material element of the offence (for example, medical hygiene advice or direction served as part of a friendship communication or the prescription of medicine that will be later administrate)<sup>119</sup>

The immediate consequence under the objective aspect of the offence is made of the danger situation for the social relationships, shown in the impeachment of the offence by the special Law, consequence directly related to the crime.

The subjective aspect is the culpability, demonstrated by a direct

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<sup>117</sup> Ibidem 7, pag 387

<sup>118</sup> Ibidem 7, pag. 579

<sup>119</sup> Eliodor Tanislav, Gheorghe Oprisan, Romanian Labour Law Magazine, n.6/2007, pag.

or indirect intention; respective, the offender envisage the result of his/her future actions and he/she pursues it (direct intention) or he/she will only accept the outcome of the actions (indirect intention). The text of the Law does not envisage requirements in respect of the purpose to the offender nor to the motive that determined such action<sup>120</sup>.

Although the crime presumptively can be fulfilled in all imperfect forms, the Law does not punish the preparation acts or the attempt.

From the procedural point of view, the impeachment can be initiated ex officio, the judicial police body bearing the investigative jurisdiction, and first instance will be carried out by the City Courts.

An important issue that should be thoroughly analysed is the antithesis between the prerequisites of the medical profession Law and the ones stated in the art. 147 of the Penal Code.

First of all, the medic is not a public employee during the exercise of the medical profession, due to its humane and liberal nature, but the Penal Code refers to public employee as any individual that exercise permanently or temporarily, for any purpose, regardless of the nomination, with a commission of any nature, paid or not, with in an institution mentioned by art. 145 of the Penal Code Line 1 of art. 147 of the Penal Code refer to the "employee" also as any worker, employed by a company, other than the ones mentioned in the previous line.

From the two lines arouses the question if the medic is either a public employee or just a worker and if the art. 147 of the Penal Code are mandatory for him/her.

On one hand stands the opinion that the medic is not a public employee, based on the law that regulates the exercise of the medical profession, thus the humane and liberal nature of the profession.

The humane nature of the profession clearly emerges from the art. 374, point 2, but it is not optional, since the medic is bound by the oath to perform such duty, sworn at the graduation from the medical university.

The liberal side of the profession reflects in the option given by the legislator for the medic to perform his/her duties either in an institution under the control of the Ministry of Health or other minister's own medical service, or in the private sector.

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<sup>120</sup> Eliodor Tanislav, Nicolae Conea, Eliodor Tanislav jr., Crimes punished by penal special law – Legislation, doctrine, jurisprudence, Publisher Semne, Bucuresti, 2006

On the other hand, a completely different opinion, emerged from the previous Law (Law nr. 74/1995 regarding the exercise of the medical profession), in art. 12, line 3, stated that the medic is a public employee and can perform either in the private sector or in an institution under the control of the Ministry of Health or other minister's own medical service.

The issue of the medics that exercise their profession in the private sector is pretty clear in its self. However, the medics that perform in an institution under the control of the Ministry of Health or other minister's own medical service, are public employees, since they sign a labour contract and for their activity receive a regular pay.

Under these circumstances, the medic can be active subject of the felony of receiving bribe, regardless of the means to commit it<sup>121</sup>.

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<sup>121</sup> Ibidem 7, pag.579



## **ECONOMIC MASS AND WORLD ECONOMIC CRISES AND ITS EFFECT ON NATIONAL ECONOMY IN DEVELOPING COUNTRIES**

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### ***Abstract:***

*Since the international economy is facing a strong strike considered one of the worst economic crises witnessed worldwide in several decades having several severe negative effects on developing countries, affecting its revenues and growth rates and the developing manifestations which have been achieved in the latest years, where recently world is in great need to have a world economic cooperation.*

*Where till summer 2008 the spreading point of view was concentrated at "separating world economics from each other and securing it against any financial crises and economic collapses spreading in the developed world, while in the recent time it seems that this way of thinking became just like hope, where developing countries same as developed countries have faced three risks represented in food, energy and financial crisis where several developing countries have entered the risk stage in order to overcome this crisis where growing economies are affected by this kind of collapse through several figures where countries are suffering high balance of payment and a financial deficit are more exposed to the crisis, also several countries are witnessing a sharp decrease in exports affecting investments in the growing markets where investment portfolios has been decreased, as the investors have withdrawn their capitals preferring to keep them in some near places away from danger within this risky circumstances also the direct foreign investment has been decreased despite that earlier cases proves that economy was enabled to refresh its activity and overcome its crises.*

*On the highlight of the previous statements the research include the development of World Trade Organization agreement and its role and principles and the privileges allowed to developing countries and the less developed countries then showing the expected increase in the world production and its distribution among different states, finally the study include an analysis for developing the movement of exports in products and services in the chosen*

*developing states among the world and the developed countries where increasing exports is the main element affecting economic development and raising the standard of living.*

*This study aims at mentioning the importance of economic masses in developing countries facing the economic globalization, thus increasing the economic ability and developing rates in developing countries allowing it to enter world market through merges and free trade and international exchange where trade is considered the production train trying to achieve economic growth in developing countries.*

### **1-Introduction**

The huge economic masses and world trade organization agreement, are generally affecting developing countries including low standard of life, where if it compared to the average individual income in the developed countries considered very weak, where most citizens in poor states are worried about getting the minimum limit of their food needs reflected by the great gap in distributing national income in developing states, where working on the level of the regional masses is not just a response to the national demands but also it became a main important condition to be merged with the scientific and technological revolution participating in it trying to achieve development which is directly related to securing the economic development conditions in the context of the recent globalization beating the national capitals wither the state was a liberal or a capitalistic state within the recent wide spreading of the resources markets and different kinds of interests also it is related to securing the political conditions.

The research is discussing the regional masses and how to get out of the world economic gap and restoring dialogues and gathering with other states and getting benefit of the globalization on the national level in the developing states without reconstructing the state and coping with the recent era joining the big economic masses entering the global markets.

#### **1-1 The Research Problem**

The research problem is represented in affecting the world trade organization agreement on developing countries and the presence of huge economic masses facing the economic globalization accordingly decreasing natural resources in developing countries compared to developed countries, thus we have determined the most important problems in this field including the following:



1-increasing importing prices in developing countries including agricultural products and food products

2-the competition between industrial products as most of it is raw materials where industrial states are trying to find some alternatives

3-increasing unemployment in developing states particularly in industrial field

4-the gradual decrease in supporting agricultural production in developed states so increasing prices of importing food products in developing states

5-the gradual decrease in customs causing a deficit in the general budget in developing states

6-the hard international competition between developing states and developed countries in services trade field and foreign trade

7-the difficulty for developing states to cope with developed states in technology and importing the technology sources

### **1-2 the Research Importance**

The importance of this study is related to the important role played by the economic masses in the world economy, the research results will help in the following:

1-how to open the developed states markets for developing states products and its importance in growing developing states economy

2-determining the direction towards the huge economic masses in order to gain the chances allowed by these masses allowing developing states to enter global market

3-the importance of making developing states try to pursue their targets and develop its economic performance in order to find these states on the global economic map

4- Offering a fair competing field for world investments in developing states

### **1-3 the Research Targets**

This research aims at showing in important role of economic masses in developing countries within the world trade organization agreement, thus supporting these states through increasing the economic ability in developing states thus the research targets will help in the following:

1-supporting developing states in entering world economic masses in coping with global economy

2-showing the importance economic masses and huge economic merges and its effect on small entities in developing states

3-helping developing states to enter global market of the developed states through economic merges and free trade and international exchange

## **2- Economic Crises**

### **2-1 The effect of economic crises on developing states**

The recent economic development has resulted in expecting the upcoming stage after the economic crisis affecting several projects are still under construction in the developing economy due to decreasing investment financing where it's expected that some projects can be frozen and keep it in the non-producing state making more burden on the banks due to the accumulating debts, till finishing these projects and adding them to the growing production energy increasing the contraction risk.

Due to all these factors it's expected that GDP to decrease in developing states to 2.1% in 2012 compared to 7% in the period between 2006 till 2011 in same time where countries are enjoying high income rates are suffering from deep recession this year, decreasing economics in OECD states recording 3%, while in other states of high income it raise to reach 2%.

As we can't explain the sharp collapse in growth rate through watching the trading activities, where it's clear that the local economics of developing states have been affected by the financial crisis and the changes in pumping capitals and collapsing stock markets and securities and the general collapse in financing, pushing the investment growth in developing states to be slow decreasing investments sharply, despite all that, the developing states have entered the financial crisis supported by several advantages which it didn't have in 1980s and 1990s in the last century including the strong economic policies and its strong ruling system and well administration of debts, also including moving towards organizing prices and exchange rates to be more flexible participating in improving the economic ability to absorb strikes through modifying prices of exchange rates.

*(Mohamed Khawasek, 2011)*

### **2-2 Economic Masses End Multinational Enterprises**

These kind of companies have been emerged with its new view in the late of the nineteenth century where its appearance formed an important transformation in the economic activity particularly after increasing its numbers and sizes, the multinational enterprises are characterized by its huge size, different activities, geographical spreading and depending on world stock, mobilizing the abilities where the earlier monopolies were based on the economic activity inside the states belong to it, based on the national slogans trying to protect national market away from foreign competition without paying attention to the technological developments.

*(Saad Taha and others, 2009)*

While the multinational companies spreading its activities in different states in the world trying to get benefits everywhere at any state without preferring any state than other, can get its money transfer from any financial institution internally or externally including "Time Warner Company" including several publishing, and media companies and studios at Hollywood and the news network CNN.

The technological development is considered the corner stone for multinational companies, where Germany is spending 8.2% of the GDP on research and technology about 2.37 billion dollars shared by the public money about 37%.

*(Saies El Nagar, 2010)*

### **2-3 Change in Real Income**

The change in real income for liberating the world trade as a result of the partial and total liberating dividing the states into states achieving losses in its partial liberating and total liberating as Indonesia, Mediterranean states, Africa, and Mexico and other states achieving profit including Asia due to high income rates including China, India, Japan, Russia, USA, Canada, and EU states and some of South America states.

*(Development and cooperation organization, 2011)*

**Table No (2-1)**  
**The change in real income due to liberating world trade**

Change in real income	Partial liberation	Total liberation
From 2.6 to 0.8%		Indonesia 2.6%, Mediterranean states 2.4%, Nigeria 18%, Gulf states 1%, Africa 0.9%
From 2.7 to 0.1%	Indonesia 0.7%, Morocco 0.5%, Mediterranean states 0.45%, Africa 0.2%	Mexico 0.4%
From 0 to 0.4%	Mexico 0%, Australia, New Zealand, soviet union, east Europe 0.1%, USA, Canada 0.2%,	Canada 0%, south Africa 0.1%, USA 0.3, Brazil 0.4%
From 0.5 to 0.1%	Gulf, India 0.5% south Africa, south America, Asia of low income 0.6%, Japan 0.9%	Soviet union 0.9%, Australia, New Zealand 1.05%
From 1.1% to 1.5%	EU, free EU zone 1.4%	Rest of south America, Asia of low income 1.3%
from 1.6% to 2.0%	-----	India 1.8%
From 2.1% to 3%	China 2.5%, Asia high income 2.6%	Japan 2.7%, EU, free EU zone 3%
From 1.3% to 4.5%	-----	China 4.5%
More than 4.5%	-----	Asia of high income states 8.2%

**Sources: Dr. Mohamed Khawasek, Dr. Emadeldin Eid, 2012**

In order to evaluate the results of world trade organization agreement for both developing and developed states through this study, analyzing services and products exports for both developing and developed states in the period between 2005 and 2011 through its exports and reaching the markets in order to liberate the global trade, leading to increasing growth rates and achieving economic development and raising the standard of living.

#### **2- 4 developed states exports in products field**

- Increasing the value and share of exports for USA, Canada, Japan including products in the period between 2005 till 2011
- Decreasing the share and value of exports coming from France and Germany.
- Both England and EU have achieved decrease in exports share and increasing the values.

This is what shown by Table No (2-2).

Table No 2-2

*Developed states exports from goods*

State	Value in Billion Dollars							Export share			Annual change rate in value		
	1990	1995	2000	2005	2009	2010	2011	1990	2010	2011	2009	2010	2011
<b>world</b>	2034	1954	3448	5122	5700	6430	6155	100	100	100	3.8	12.8	-4.3
<b>USA</b>	225.6	218.8	393.6	584.7	692	781.1	730.8	11.09	12.15	11.87	1.6	12.8	-6.4
<b>France</b>	116	101.7	216.6	301.2	324	324.9	321.8	5.7	5.05	50.23	1.1	0.2	-0.9
<b>Germany</b>	192.9	183.9	421.1	523.5	544	551.8	570.7	9.48	8.58	9.27	0	1.5	3.4
<b>Italy</b>	78.1	76.7	170.3	233.8	236	240.5	241.1	3.84	3.74	3.92	-4.2	2.1	0.3
<b>England</b>	110.1	101.3	185.2	237.9	272	284.9	273.1	5.41	4.43	4.44	11.3	16	-6.1
<b>Canada</b>	67.7	90.9	127.6	192.2	268	276.6	259.8	4.33	4.3	4.22	11.3	16	-6.1
<b>Japan</b>	130.4	177.2	287.6	443.1	914	479.3	403.5	6.41	7.45	6.56	8.1	14.3	-15.8
<b>EU</b>	753.8	708.8	1509	2084	2236	2312	2291	37.06	35.96	37.23	0.1	3.4	-0.9
<b>Developed States</b>	1280	1289	2490	5324	3810	4100	3934	62.92	63.92	63.92	2	7.6	-4.0

Source: data of world trade organization 2011

### 2-5 Exports of Some Developing States in Goods Field

In the field of goods export for some developing states where each of Brazil, Mexico, Turkey, Poland, India, Indonesia, Malaysia, Singapore, Philippine, Thailand, Egypt, Algeria, Tunisia, Libya, Morocco, Jordan, Lebanon, Yemen, Sudan achieving an increase in the growth rate for goods exports and increase in the change rate in the share showed by table 2-3 as follow.

Table No 2-3

*Exports of some developing states of goods*

State	Value in Billion Dollars							Export share			Annual change rate in value		
	1990	1995	2000	2005	2009	2010	2011	1990	2010	2011	2009	2010	2011
<b>world</b>	2034	1954	3.8	12.8	-4.3	3448	5122	5700	6430	6155	100	100	100
<b>Non-Arab States</b>													
<b>Brazil</b>	20.13	25.64	-6.1	14.7	5.7	31.41	64.51	48.01	55.09	85.22	0.99	0.86	0.95
<b>Argentina</b>	8.02	8.4	-11.8	13	0.9	12.35	20.97	23.33	26.41	26.66	0.39	0.41	0.43
<b>Mexico</b>	18.03	26.76	16.1	22	-4.78	40.71	79.54	136.4	166.4	158.6	0.9	2.59	2.58
<b>Turkey</b>	2.91	7.96	-1.4	4.5	12.3	12.96	21.64	26.59	27.78	31.2	1.14	0.49	0.51
<b>Poland</b>	17.02	11.49	-2.9	15.5	14	14.32	22.9	27.41	31.65	36.09	0.84	0.49	0.59
<b>India</b>	8.59	9.14	6.7	18.8	2.9	17.97	30.63	35.67	42.38	43.61	0.42	0.66	0.71
<b>Indonesia</b>	21.91	18.59	-0.4	27.7	-9.3	25.68	45.42	48.67	26.12	56.32	1.08	0.97	0.92
<b>Malaysia</b>	12.96	15.44	15.2	16.2	-10.4	29.45	73.91	84.46	98.14	87.92	0.64	1.53	1.43
<b>Singapore</b>	19.38	22.81	4.4	20.2	-11.6	52.73	118.3	114.7	137.8	121.8	0.95	2.14	1.98
<b>Philippine</b>	5.74	4.61	24.3	8.8	-219	8.12	17.5	36.58	39.78	32.13	0.28	0.62	0.52
<b>Thailand</b>	19.78	30.7	9.9	21.6	-17.1	67.08	111.6	121.5	147.8	122.5	0.97	2.3	1.99
<b>Arab States</b>													
<b>Egypt</b>	3.05	3.71	13.7	31.8	-0.12	3.48	3.45	3.56	4.96	4.13	0.15	0	0.07
<b>Algeria</b>	13.87	12.84	27.3	75.9	-0.9	12.93	10.24	12.53	22.03	20.05	0.68	0.34	0.33
<b>Tunisia</b>	2.2	1.74	2.3	-0.4	12.9	3.53	5.48	5.87	5.85	6.61	0.11	0.09	0.11
<b>Libya</b>	21.91	12.31	19.3	68.9	-13.2	13.23	9.98	7.95	13.42	11.65	1.08	0.21	0.19
<b>Morocco</b>	2.49	2.17	3	0.8	4.2	4.27	6.88	7.37	7.43	7.12	0.12	0.12	0.12
<b>Syria</b>	2.11	1.64	19.9	33.8	-3.1	4.21	3.56	3.46	4.63	4.49	0.1	0.07	0.07
<b>Jordan</b>	0.57	0.79	1.7	3.5	20.9	1.06	1.77	1.83	1.9	2.29	0.03	0.03	0.04
<b>Lebanon</b>	0.87	0.48	2.3	5.6	21.8	0.49	0.82	0.68	0.72	0.87	0.4	0.01	0.01

Source: Data of world trade organization 2011

## 2- 6 Comparison between goods exports of developing and developed states

- the share of goods exports for developed states in 2005=68.8%, the share of goods exports for developed states in 2009 =68.8%, the share of goods exports for developed states in 2010 =63.8%, and 2011=63.9%
- the share of goods exports for developing states in 2005=25.2%, the share of goods exports for developing states in 2009=26.8%, the share of goods exports for developing states in 2010= 29.2%, and 2011=28.7%

**Table No 2-4**

### *Developed and developing states exports from goods*

State	Value in Billion Dollars							Export share			Annual change rate in value		
	1990	1995	2000	2005	2009	2010	2011	1990	2010	2011	2009	2010	2011
world	2034	1954	3448	5122	5700	6430	6155	100	100	100	3.8	12.8	-4.3
<b>Total Developed States</b>	1280	1289	2790	3524	3810	4100	3943	62.92	63.76	63.92	62	9.9	24.4
<b>Total Developing States</b>	590	495	799	1294	1532	1879	1764	29.02	29.23	28.67	29.9	2.0	7.6

**Source: Data of world trade organization 2011**

We can notice increasing the share of goods exports in developing states, despite all that the change in value was 7% compared to 16.3% for developed states, due to decreasing currency rates compared to currency in developed states

- the rate of annual change in exports value in developed states in 2005 till 2010 is 16.3%
- the rate of annual change in developing states where export value in 2005 till 2010 is 0.7%
- the rate of annual change in exports value in developed states is 9.9% in 2010 compared to 0.2% for developing states, 3.8% in 2009, 2.4% in 2011 compared to 7.6% in developing states 12.8% in 2010 as shown in table No 2-4

## **Results and Recommendations**

### **First: Results**

After discussing all the research content with all its issues, some results were concluded as follow:

1-trying to avoid pressures that imposed by developed states on the growing developing countries so as to offer the developing countries more chance to have economic revenues, guarantee the balance between its rights and liabilities

2-asking developed states to lift burden and determining the important fields in exporting for developing states in order to raise the exporting value in those countries supporting it in developing its economy

3-keeping the allowed facilities to developing states in the services field by not allowing services suppliers by working in developing states markets before reinforcing and developing its local abilities in this field.

4-raising the value of annual growth rate for developed countries exports with a rate is more than double the increase rate of the exporting value in developing states

5-increase in the size and value of exports for some kinds of goods in developed states including the United States, Canada, and Japan, the countries that are expected to achieve benefits from world trade organization agreement till now

6-results show that a big number of developing states have achieved an increase in the value and share of its exports within implementing the world trade organization agreement despite several threats for other developing states

7-increasing the competition in local and international markets leading to the quality of production and decreasing goods prices serving the consumer

8-raising prices of food products allow increasing exports of developing states, it also considered as a chance for expanding in producing grains

### **Second: Recommendations**

After discussing results of the study, where a number of recommendations have been extracted in order to face the global economic masses and globalizing economy in developing states as follow:

1-exclusive procedures must be taken in the goods and services field in case of deteriorating the balance of payment which limit the number of suppliers for these services, also in the value and size of foreign investments

2-we have to work through negotiations in order to determine the working fields and moving towards economic sectors determining the negotiating fields through understanding agreement rules in order to support developing states to enter the global market



3-the importance of achieving continues support for the developing states demands through reinforcing its power and increasing its abilities through using modern technology

4-the continues demand for opening markets in developed states against developing states exports, and transferring workforce as a basic demand for developing states

5-raising shares system lead to having no differences and increasing exports rate in developing states in clothes and textile field

6-the developing states have to work hard to gain best conditions in order to secure it against the global economic masses to cooperate with each other supporting its power as it enjoying the biggest source of raw materials and wide consuming markets

7-the huge economic alliances activities and world trade agreement should be followed and plans should be set in order to keep interests of developing states in these markets

8-the importance of reinforcing the abilities of developing states power in goods and services field and getting benefits from supports and the allowance period provided by world trade organization for developing states and the less developed states.

#### **References:**

##### **First: Arabic References**

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##### **Researches and Studies**

Development and Cooperation Organization, International Bank for Reconstruction and Development, *Evaluating the quantities effects resulting from implementing world trade organization agreement in 2011.*



## THE EVOLUTION OF ROMANIAN MARKET OF GDP AND INFLATION IN THE PERIOD 2005-2012

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### **Abstract:**

*Our approach to the research – the results of which are presented in this paper – is based on the assumption that the relation between the money base and inflation was severely uncorrelated due to the development of technology and the creation of esoteric financial instruments. Since inflation is the key objective of the strategy pursued by the National Bank of Romania, we intend to find out if the monetisation level of the economy still is one of the factors causing inflation. Moreover, we consider the correlation between economic growth and inflation, a question endlessly discussed by academic circles after the crises. By means of an econometric analysis we define some relations of causality among variables to see whether monetary variables influence the evolution of the GDP or vice versa.*

**Key words:** VAR, inflation, monetary base, central bank

### **1. Introduction**

Given the capital account and exchange rate liberalization, National Bank of Romania gave up monetary targeting strategy (monetary base could not be controlled any longer) – a strategy pursued for about two decades and half – and adopted the inflation target strategy in august 2005. Isarescu [2007] said that the development of financial institutions and markets had led to a difficult and, later, impossible control of monetary aggregates due to increasingly unstable velocity of money circulation.

Therefore, the main objective of the monetary policy followed by the National Bank of Romania was the inflation target. The inflation target strategy – which compels the Central Bank to keep a low inflation – played a leading role in maintaining price stability in industrialized countries. Similarly to the developing countries, the former communist countries adopted and implemented this strategy

able to improve the transparency of the monetary policy and to determine the authorities to carry out necessary reforms for a transition from the planned economy to a market economy.

The present crisis showed that the main target of the monetary policy – inflation – was not enough to stabilize prices at a low level and this should have been accompanied by financial stability; more exactly, a combination of monetary policies to obtain a balanced mix of policies. In the 2012 Annual Report, the National Bank of Romania reveals that Romania made progress in macroeconomic stabilization in 2011 by promoting a mix of economic policies for starting economic growth on a sustainable basis. While the monetary policy was countercyclical in 2011, because of the monetary area created in the previous years, the size of the imbalanced caused before the crisis and the need to eliminate the severe deficit by the end of 2012 forced the fiscal policy to be further procyclical.

## 2. Evolution of the monetary supply in relation with inflation and GDP

In our analysis we used monthly, quarterly and annual data for the GDP, the CPI, and the M1, M2 and M3 monetary aggregates for January 2005 – December 2012 period. The primary data were found at [www.bnro.ro](http://www.bnro.ro) and [www.insse.ro](http://www.insse.ro).

**Table 1: The evolution of the monetary indicators during the period under analysis**

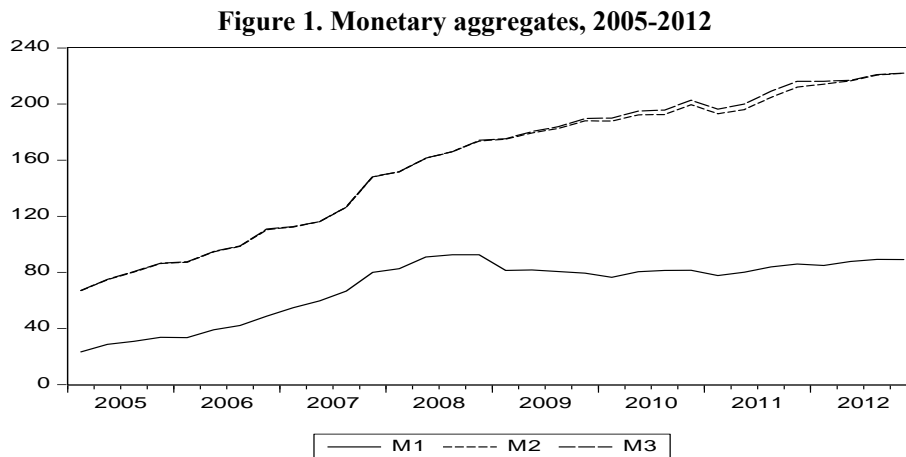
	million lei							
Year	2005	2006	2007	2008	2009	2010	2011	2012
<b>M3</b>	86,52 5	110,82 1	148,11 6	174,02 8	189,63 0	202,77 3	216,20 8	222,01 7
<b>M2</b>	86,23 0	110,44 2	148,04 4	173,62 9	188,01 3	199,57 2	212,05 9	221,82 9
<b>M3 (% of GDP)</b>	30.16	32.44	35.93	34.04	38.75	39.07	37.69	37.80
<b>M1</b>	33,76 0	48,726	79,914	92,549	79,362	81,592	85,834	89,020
<b>Cash in circulation</b>	11,38 6	15,130	21,441	25,287	23,968	26,794	30,610	31,477
<b>Demand deposits</b>	22,37 4	33,596	58,473	67,262	55,394	54,798	55,224	57,543

The M1 monetary aggregate (the money supply in a narrow sense) includes sight deposits and cash in circulation. The M2 monetary aggregate (intermediate

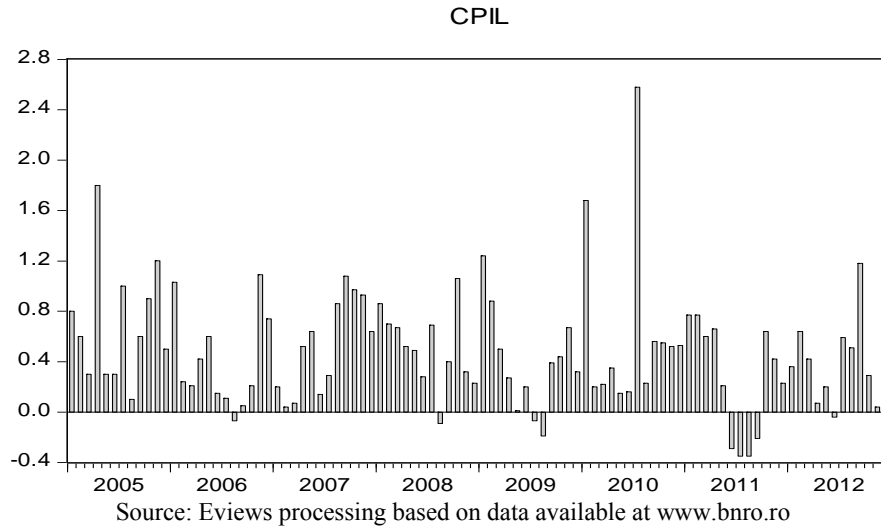
money supply) consists of the M1 monetary aggregate and deposits to be reimbursed on notice of the most three months inclusively as well as deposits for an initial period up to two years inclusively. The M3 monetary aggregate (the money supply in a broad sense) includes the M2 monetary aggregate and loans from repo operations, shares/units of monetary market funds (issued) and issued tradable securities with maturity up to two years inclusively.

The money supply in a narrow sense (M1) began to decrease with the start of the global financial crisis, from 92,549 million lei in 2008 (the reference level of the best economic year as regards the GDP level) to 79,362 million lei in 2009, and then slightly increased, but not reaching the level of economic growth in the reference year.

**The evolution of the monetary indicators during the period under analysis:**



Source: Eviews processing based on data available at [www.bnro.ro](http://www.bnro.ro)

**Figure 2: Evoluția inflației în perioada 2005-2012**

In our study, the assessing of the intensity of shocks to system variables is based on the VAR determination, which is a model enabling us to analyse the effects of economic policy measures. VAR analysis has been used in macroeconomic studies since the 1970s, with Cristopher Sims as a leading promoter, as VAR is, in fact, a system-type analysis with all included variables endogenous and, there before, modelled together. The VAR method is very common for analysing time series, especially due to its flexibility and easy utilisation. It may be considered a generalisation of both the univariate autoregressive (AR) model, because the dependent variables are lags of explanatory variables and also of simultaneous equations. All variables in the VAR model are treated symmetrically, as each variable has an equation that explains the evolution on the basis of own lags and the lags of other variables of the model.

We used the Phillips – Perron test for stationarity.

**Table 3: The stationarity of the series**

Series	Null hypothesis likelihood (unit root)			Nature of the series
	Level + ct	Level+ct+trend	First difference	
	Prob.	Prob.	Prob.	
<b>GDP</b>	0.2721	0.9691	0.0147	I(1)
<b>M1</b>	0.0015	0.0381	0.0000	I(0)
<b>M2</b>	0.0586	0.1516	0.0000	I(0)
<b>M3</b>	0.0598	0.1678	0.0000	I(0)
<b>CPI</b>	0.0002	0.0006	0.0000	I(0)

First, we tested for the existence of a VAR representation between the GDP and the M1 and M2 monetary aggregates, and the CPI and the M1 and M3 monetary aggregates. For the GDP we considered the difference series according to the above table (series I (1)), and for the other ones we used the level series. The results of the VAR model tests are not conclusive for the 2005 – 2012 period, i.e. the regression coefficients related to the explanatory variables are mostly statistically insignificant, which – if correlated with high coefficients of determination – leads to the conclusion that the space of entered elements would be strongly correlated. Under these circumstances we checked up the existence of some causality relation among those variables using Granger Causality Tests to see exactly if monetary variables influenced the GDP evolution or vice versa. Since not all variables are stationary, we used Toda–Yamamoto version of Granger Test. Toda-Yamamoto version is applied when series are not stationary [Jula 2013].

#### **Testing a causality relation between inflation and monetary aggregates.**

We tested the causality relation between CPI and M3 for quarterly data. The results do not show causality between those variables.

VAR Granger Causality/Block Exogeneity Wald Tests  
 Date: 03/21/13 Time: 13:38  
 Sample: 2005Q1 2012Q4  
 Included observations: 30

Dependent variable: CPI

Excluded	Chi-sq	df	Prob.
M3	1.197907	1	0.2737
All	1.197907	1	0.2737

Dependent variable: M3

Excluded	Chi-sq	df	Prob.
CPI	0.201928	1	0.6532
All	0.201928	1	0.6532

The null hypothesis: M3 does not Granger-cause CPI (Toda Yamamoto version) and the likelihood of 0.2737 is higher than the standard threshold of 0.05, so we accept this hypothesis.

The null hypothesis: CPI does not Granger-cause CPI (Toda Yamamoto version) and the likelihood of 0.6532 is higher than the standard threshold of 0.05, so we accept this hypothesis, too.

In conclusion, the hypothesis regarding a relation between the quarterly values of CPI and M3 is not econometrically verified. Under these circumstances, we test for the existence of some causality relations among monthly values of those variables.

#### VAR Granger Causality/Block Exogeneity Wald Tests

Date: 03/21/13 Time: 13:18

Sample: 2005M01 2012M12

Included observations: 94

#### Dependent variable: CPIL

Excluded	Chi-sq	df	Prob.
M3L	4.895786	1	0.0269
All	4.895786	1	0.0269

#### Dependent variable: M3L

Excluded	Chi-sq	df	Prob.
CPIL	0.004698	1	0.9454
All	0.004698	1	0.9454

The money supply in a broad sense (M3) does not Granger-cause CPIL (Toda-Yamamoto version) and the likelihood is 0.0269, below the standard threshold of 0.05, so the hypothesis is rejected; therefore we accept the alternative hypothesis that M3 is a cause for CPIL.

CPIL does not Granger-cause M3 (Toda-Yamamoto version) and the likelihood is 0.9454, higher than the standard threshold of 0.05; therefore, we accept the hypothesis that CPIL is not a cause of the M3 dynamics.



We also tested the quarterly relation between the GDP and M1 and between the GDP and M3.

VAR Granger Causality/Block Exogeneity Wald Tests

Date: 03/21/13 Time: 12:51

Sample: 2005Q1 2012Q4

Included observations: 30

Dependent variable: M1

Excluded	Chi-sq	df	Prob.
PIB	0.722892	1	0.3952
All	0.722892	1	0.3952

Dependent variable: PIB

Excluded	Chi-sq	df	Prob.
M1	1.383073	1	0.2396
All	1.383073	1	0.2396

VAR Granger Causality/Block Exogeneity Wald Tests

Date: 03/21/13 Time: 12:41

Sample: 2005Q1 2012Q4

Included observations: 30

Dependent variable: PIB

Excluded	Chi-sq	df	Prob.
M3	0.570287	1	0.4501
All	0.570287	1	0.4501

Dependent variable: M3

Excluded	Chi-sq	df	Prob.
PIB	1.242044	1	0.2651
All	1.242044	1	0.2651

M3 does not Granger-cause GDP (Toda Yamamoto version) and the likelihood of 0.45 is higher than the standard threshold of 0.05, so the hypothesis is accepted.

GDP does not Granger-cause M3 (Toda Yamamoto version) and the likelihood of 0.265 is higher than the standard threshold of 0.05, so the hypothesis is accepted.

### **3. Conclusions**

After more than five years since the global financial crisis started, it still has a major impact on all domains influencing the GDP. In Romania, the crisis interrupted the economic growth that had lasted for more than one decade. If the National Bank of Romania had not adopted the inflation target strategy Romania might have not grown economically between 2000 and 2008, by giving up the monetary aggregate target; the national economy underwent a strong monetisation, so the maximum level of monetisation expressed as a ratio of the money supply in a broad sense (M3) to the GDP was attained in 2009.

The econometric analysis shows that in the period in view there are no causality relations according to Granger test between the money supply and inflation and between the money supply and the GDP, and the analysis based on the autoregressive vector reveals that the macroeconomic variable variation cannot be explained by means of the past values. The decorrelation of the monetary aggregates and inflation, and the GDP, respectively, was caused by the development financial institutions and markets, and the emergence of esoteric financial instruments, respectively.

Considering the proposal of Milton Friedman, the father of monetarism, who said that the monetary policy had to ensure the equilibrium of the market economy by constantly increasing the money supply in circulation by 5-6% annually, the question is whether we have to adopt a monetary policy able to ensure the monetary supply expansion by a percentage that constantly stimulates constant growth of the Nominal Gross Domestic Product. There are some economists who support this policy, called the strategy of Nominal Gross Domestic Product target, but for our country this could be a difficult target because of the very low rate of sustainable economic growth. Belonging to the Monetary Union Zone could be another structural constraint of our economy as regards the monetary policy target, called the Nominal Gross Domestic Product Target.

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## CORPORATE GOVERNANCE RELATIONSHIP WITH STRATEGIC MANAGEMENT

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### **Abstract:**

*The paper highlights on corporate governance relation through collecting and analyzing different secondary resources such as websites, lectures, published articles and books and primary resources about performance of leading companies implement new strategic models and adopt governance principles. The financial crisis has asked responsible institutions to review all the topics under discussion in this paper through adding more responsibilities on corporate governance and adopting new strategic methods assuring high priority of corporate sustainability. The result of the paper ensures these relations between corporate governance, strategic management and corporate sustainability. The paper provides enhances the collective relations between corporate governance and strategic management with assuring its role in corporate sustainability in new perspective to pave the way for new academic researches discussing these relations.*

**Key Words:** Corporate Governance, Strategic Management, Sustainability.

**JEL classification:** G34, M41, Q 56

### **Introduction**

Globalization with agency theory have created in last decade new terms and financial scandals as well, which required responsible reactions from concerning institutions and government to gather their efforts in different fields to save companies and global economic from collapsing. The mistrust between financial society and a company comes positive motivation on many concepts and principles to be developed, also the idea of being prepared for globalization are grown among being scared from it, monitoring these impacts is possible among avoiding it.

Corporate governance, a term that scarcely existed before the 1990, is now universally invoked wherever in business and finance are discussed since corporate governance carries such a wide variety of interpretations, it seems appropriate to begin by setting out the approach generally adopted in the volume. Here it is assumed that an effective system of corporate governance has two requirements: at

the micro level it needs to ensure that the company pursues its objectives. Thus by following Anglo-American conception of a company as a device to further well-being of shareholders, good governance is a matter of ensuring that decisions are taken and implemented in pursuit of shareholder value. Importantly, that involves actions, which reconcile the need to protect the downside risk to holders referred to managerial accountability as well as to encourage managers to take risks to increase shareholder's value (Keasey and Wright, 1993). At the macro level of corporate governance, in the words of Federal Reserve Chairman Alan Greenspan has evolved to more effectively promote that allocation of the nation's saving to its most productive use. Thus in financing activity, whether through equity or debt savings; are channel-led into productive activities, the return on which ultimately determines national prosperity. The recent US experience with Enron, WorldCom and other failures is a reminder that if failures at company level are sufficiently serious and/or widespread, there will be a miss-allocation of funds in the short term and systemic consequences for longer-term investment if confidence is damaged. The corporate governance refers that blend of law, regulations, and appropriate voluntary private-sector practices, which enable efficient performance and attracting human and financial capital to a company and thereby preserves it by generation long-term economic value for its shareholders, and the interests of stakeholders and society are respected as a whole. The prime characteristics of corporate governance are: disclosing relevant operational and financial information and internal control and oversight processes of management forcing and protecting exclusive right of all shareholders, and providing independent strategy, decisions and business plans for a company approved by independent directors, independently hiring management to monitor integrity and performance of managers, and replacing management when it is necessary. Ira M. Millstein; Senior Partner, Weil, Gotshal & Manges LLP, and noted authority on corporate governance.

Agency theory establish conflict area of interests between various parties, these parties are determined according to theories; shareholder theory limits these conflicts between shareholders, debtors and managers among limiting these conflicts between stakeholders; stakeholder theory (shareholders, debtors, customers, employees, managers, suppliers, governments, societies and environment). Full investigation has been done after finance theory has elaborated empirically and theoretically. Plus differences of cultures in markets have significances for preponderance of agency conflicts and how to control these

conflicts. It is impossible that managers act perfectly in each possibility that affects their benefits and other benefits as well that is called agency problem, which creates cost which is seen as losing value to shareholders (Jensen and Meckling 1976). Monitoring agency cost is enforced by statutory practices, companies are asked to provide compliant statement according to governance codes such as Cadbury, and Greenbury in United Kingdom bringing attention on moral conflicts between stakeholders including shareholders with managers, as well that is proofed by empirical studies; poor performance of directors is more like the reason behind directors losing their jobs. Agency problem goes far when agency costs affect on profit to impose capital structure, the decision-making of investors and labor market are affected, over all call all responsible institutions to act urgently.

### **Corporate Governance and Strategic Management**

Starting with 1990 strategic management has entered new period of developing and adopting new styles based on thinking “My business is thinking – T.A. Edison”. That asks managers to be aware about company’s atmosphere and understand well the changes of business world. Managers must recognize exchanging relationship between environment, society, economic and their companies switching from liner thinking to non-liner thinking, managers should be creative in achieving companies’ objectives. Plus, financial scandals in United States of America and its shadow on Europe Union and growth economic countries, where the head quarter of multinational companies around the world are, push researchers to develop strategic management by adopting new terms and styles talking with the reality. Management must respect all interests of stakeholders, and from this point corporate governance starts its role, the financial society becomes strict with corporate governance through recognizing governance as a solution key to earn back the lost trust generally, not only stock market. Many codes have taken place such as Sarbanes – Oxley, Cadbury report, Hample Report, etc. Governance improvements are started when its activities are criticized. Strategic intention contents vision, mission, and strategic objectives, company’s vision is changeable (updating and reviewing process) at micro level and fixed at macro level, dynamic thinking is presenting in vision by measuring developing opportunities on long-term with presenting the most essential interests of shareholders that is about team work, accountability, integrity, responsibility and customer enthusiasm. Mission concentrates on external image talking about assumed fundamental communication values by top-management, general

statement of vision and clear objectives of strategic and correlating with company's social responsibility.

Strategic management is handling accountability and social responsibility as part of vision and mission, and shareholder' interests are highlighted, that can interrupt by employee's interests or even environment regulations and responsibilities creating interest conflict. Running long-term business is an essential object for successful management achievement that can be happened through different possibilities to attract new investors. Corporate governance is to ensure that the interest of top-level managers is lined up with the interests of shareholder, moving on in the conflict areas of interests between shareholders, managers, and board of directors these areas include election of Board of Directors (BOD) and Chief Executive Manager (CEO), and other stakeholders. Overall corporate governance is structure and strategic direction, here it shows that corporate governance has managerial role through different tools, there are corporate governance legislation, corporate governance ethics and corporate governance responsibilities socially and environmentally which can serve to achieve strategic objectives. Agency theory takes place between shareholders and manager, and also between managers and employees, managers are agents and they should understand well all stakeholders' interests with putting their companies' objectives as main priority. Agency relationship leads to managers' self-interest called academically "managerial opportunism" with weak controlling system this interest will be maximized, and therefore ethic codes are created to solve issues of self-interests of managers granting long-term relation between stakeholders with achieving main objectives and other individual interests of stakeholders. In other words, ethic codes' self-regulation is part of strategic management in modern structure. The deficiencies in corporate governance mechanisms occasionally fail to adequately monitor and control top-level managers' decisions that might cause systematic risks which have resulted by mechanisms changes of corporate governance.

In generally, corporate governance is related to controlling and administrating a company, each element of governance analysis gives birth to large number of recommendations, then a general view is presented about examining governance by evaluated each element of the loop ultimately and considering the interactive relations among these elements. The result is that corporate governance is an important part of strategic management that can improve company's performance, and a central objective of corporate governance is to make managers



accountable to shareholder otherwise managerial opportunism is increased with possibility that individual interests of managers are not matching with other stakeholders' interests. Competitive and dynamic are main features of business nowadays; its survival depends upon good management and leadership, and more important is that the vision of a company, over all must have clear view about the business and industry. The need of creating strategy is to enable managers to create value and to maintain competitive advantages. Creating value and maintaining competitive advantages are common objectives on long-term for corporate governance and strategic management.

Responsibilities related to society and environment have impacts on strategic management through implementing these responsibilities and strategic management many objectives can be achieved easily with lower cost for an example; when multinational company carries social and environmental responsibilities such as Nokia, Ford and Chevrolet. Nokia for example opens several factories in Eastern Europe where living level is low comparing with Western Europe. Nokia management's objectives are achieved by one shoot in long-term:

- The net profit is increased through decreasing products cost; transportation cost is lesser than before, marketing researches are more effective and cheaper through using market segmentation, plus the employees can be included in marketing plan since employees live in same domestic market.
- Shareholders' interests are achieved, attracting new investors.
- Gaining well-educated employees reducing training cost to focus on ethical practices courses.
- Developing societies and protecting environment achieving social and environmental responsibility.
- Have a respecting image globally.
- Maintain competitive advantages
- Achieving corporate sustainability.

All these positive points ensure the necessity of corporate governance and applying ethic codes to control unethical behaviors of managers and board of directors, moreover it assures the effective relationship between strategic management and corporate governance.

### **Conclusions**

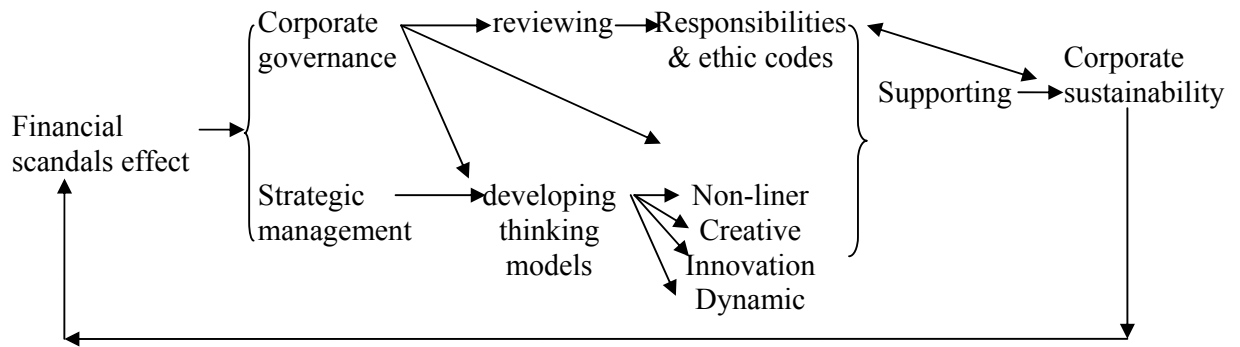
Business world is affected by invention term called globalization, it can be better to prepare for it instead of avoiding it, and corruption growth is common

concern for strategic management, and corporate governance, all over are forced to gather their efforts for the battle. As well multinational companies and globalization have influences on all mankind promoting need of confident in economic growth and strong relations between strategic management and corporate governance.

The article attempts to prove the positive relationship between corporate governance and strategic management with awareness that strategic management improvement comes from changing of internal / external factors among corporate governance improvements comes from governance mechanism that means strategic management are forced to change, but corporate governance can reduce reinforcement by self-developing, also corporate governance through ethics codes and social responsibility can be implemented in HR function. Corporate responsibility should be recognized not as obligations, in accounting language obligations means debts and expenses, but I believe it is a long-term investment which brings benefits to company that can make differences in academic researches, because the generated benefits are shared between all stakeholders. Sustainability in dynamic environment needs effective corporate governance aiming companies to improve financial operations, enjoy capital low-cost and attract intelligent clients, suppliers, investors and partners.

Corporate governance with stakeholder theories tries to solve conflicts of stakeholders' interests, not only internal issues are considered. Governance does not treat just internal issue, for the first time managements are forced to take more responsibility toward environment and community supporting corporate sustainability. Moreover corporate governance contents ethics codes and corporate responsibilities which are part in somehow of companies' vision and mission, outputs quality of companies can be increased through this combine, successful companies who implement even partially and indirectly corporate governance items in strategic management; they achieve financial stability and sustainability.

### Corporate governance relations with AS, SM & CS.



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## **STUDY OF THE FINANCIAL PERFORMANCE FOR ROMANIAN LISTED COMPANIES BENEFICIARY OF NON-REPAYABLE EUROPEAN FUNDS**

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### **Abstract:**

*Our study investigates the differences in financial performance during 2011 and the first 3 quarters of 2012 for 36 Romanian companies listed on Bucharest Stock Exchange, divided in two groups: 11 companies beneficiary of non-repayable structural and cohesion European funds and 25 other non-beneficiary companies. We found that, on average, the beneficiary companies showed better debt-to-equity ratios, larger profit margin, higher return on equity and turnover growth, but, in the same time, they witness a lower profit growth and liquidity ratio. We explain this behavior by the long term advantages and also by the short term management difficulties of implementing European funded investment projects.*

**Keywords:** European structural and cohesion funds, financial indicators, corporate financial performance, management of European project implementation

**JEL classification:** D24, G32, L25, F36

### **1. Introduction**

In this study we performed an empirical analysis of the financial performance achieved by large Romanian companies receiving European non-repayable funds in comparison with same type of companies but which didn't access this kind of free and non-reimbursable source of financing. Our investigation focused only on companies listed on Bucharest Stock Exchange and took into account performances over two consecutive financial periods: the whole

year 2011 and first three quarters of 2012.

Romania's integration in the European Union brought many non-repayable financing opportunities for both small and medium companies (SME's) and for large enterprises. These European funds which available for Romania until the end of 2013 are usually classified into 5 categories, 3 of them known as "structural funds and cohesion" and the last 2 being frequently called "complementary actions" that are needed and used in agriculture and rural development:

- 1) The European Fund of regional development;
- 2) The social European fund;
- 3) The cohesion fund;
- 4) The European fund for agriculture and rural development;
- 5) The European fund for fishing;

In corporate finance in general and especially in valuation theory it is often stated that companies beneficiary of free (non-repayable and with zero interest) sources of financing for their investments are, most of the time, developing faster and with higher efficiency, even during adverse economic conditions.

Many corporate management practitioners and researchers believe that investment projects financed from non-repayable funds can improve company's net profit margin (because the lower weighted average cost of capital) and can be a source of more economic added value for stakeholders.

Having that in mind, we were interested to see if during 2011-2012 the Romanian companies listed on Bucharest Stock Exchange that are (or were) beneficiary of investment projects financed with non-repayable European funds showed better financial performance in comparison with the other non-beneficiary listed companies. This paper represents a continuation of our preoccupation in this area of research, especially since we have previously argued that "companies which benefited from non-repayable European funds and have the potential to be more profitable in the future didn't attract more investor interest" on the local stock exchange (Panait and Stoian, 2013).

The rest of the paper is organized as follows: section 2 describes the data that we worked with and the methodology that we have used; section 3 presents the results that we have obtained; finally section 4 summarizes the most important conclusions.

## **2. Data and methodology**

To determine the sample of surveyed companies, we have started from a

number of 70 companies (the most representative) listed on the BSE. These companies have been subject to a selection process, companies that would not be eligible to receive non-repayable financial assistance due to their field of activity being eliminated. As a result of this selection process a sample of 36 companies listed on BSE was obtained, of which 11 companies are beneficiaries of European funding grants (those forming the first group, the target group), and 25 companies do not benefit from this type of funding grants (those forming the second group of companies, the control group).

In order to achieve this analysis the appropriate values of each of the 36 companies have been determined for the six financial performance indicators, grouped into three categories:

- a) Financial balance indicators: degree of indebtedness against own capital and liquidity index;
- b) Financial performance indicators: net profit margin and own capital profitability;
- c) Business' dynamics indicators: changes in net profit and the change in turnover in the past 12 months.

Accounting data needed for the calculation of the indicators mentioned above have been obtained from primary sources (website of the Bucharest Stock Exchange and investment consultant portal [www.ktd.ro](http://www.ktd.ro)).

The degree of indebtedness against own capital is calculated as a percentage ratio between the value of a company's total debt and equity. This indicator determines the size relationship between the volume of attracted financing from external sources and that of financing provided by the company's shareholders. A value less than 60% for this index reflects the existence of a good balance between the company's internal and external funding sources.

The liquidity ratio is calculated as the ratio between circulating assets and current liabilities and reflects the company's ability to transform the current assets in the form of money to honor its short term maturing debts. A sub-unitary value of this index reflects the vulnerability of the company in repayment due debt, a value between 1 and 1.5 indicates that the liquidity is kept under control, while a value greater than 1.5 reflects the ability of payment of overdue debts without any problem.

Net profit margin is calculated as a percentage ratio between net profit and turnover, the company looking for an upward trend of this indicator.

The profitability of own capital (ROE) is also known as the financial

profitability rate and it is determined as a percentage ratio between net profit and equity. This indicator is one of the important indicators that are used to evaluate a company's position on the market as it actually mirrors the investments' effectiveness of shareholders' equity. Usually, the value of this indicator must be clearly superior to the value of the Bank's interest that shareholders might earn.

Change in net profit during the last 12 months is determined by comparing the difference in value between the net profit recorded at the end of the reference year and the net profit recorded at the end of the previous year to the net profit recorded at the end of the year proceeding the year of reference.

The change in turnover in the last 12 months is determined by comparing the difference between turnover value recorded at the end of the reference year and the turnover registered at the end of the previous year with the net profit recorded at the end of the year proceeding the year of reference.

### **3. Results**

In Table 1 there are presented the values of the 6 indicators for each of the 36 companies that make up the analysis sample, these values being determined for the period from 1 January 2011 to 31 December 2011. The companies on the top 11 positions in the table below (the text in *italic*) correspond to companies benefiting from non-repayable European funds (first group of companies), while the remaining 25 companies were not beneficiaries of financial assistance grants (second group of companies). At the same time, in Table 2 there are presented the same indicators' values for the same two samples of companies, but corresponding to the first nine months of the year 2012. Comparing the data from the two tables we submitted the evolution of the average values of the 6 financial indicators, for both groups of companies, in the Table 3.

As shown in Table 1, in case of indebtedness of the company, the average value registered by companies that benefit from subsidized financing is 68.64% as opposed to the average value of 77.16 % recorded by companies not benefiting from non-repayable European funds. Therefore, non-reimbursable financing of companies in the first group contributes to a more stable balance between internal and external funding sources against the company's businesses from the second group.

It is also observed that the highest level of debt in relation to equity (304.13%) is recorded in the case of a company in the second sample, while the highest value of this indicator for the companies in the first sample is only



158.54%.

Liquidity index determined for the two samples of companies reveals a higher average liquidity in case of companies which do not benefit from non-reimbursable financial assistance (an average of 3.11) compared to firms that receive non-repayable financial assistance (the average value of this indicator was 1.92). This situation could be explained by short-term loans contracted by companies in the first group to provide financing for projects in deployment. However, based on the average values of this indicator, it is shown that both categories have the ability to repay their short term maturing debts.

The net profit margin records an average of 3.4% in the case of companies in the first sample, for companies from the second sample being registered an average of 12.5 percent. The values in the table in the case of this indicator for the two groups of firms reveals that most of the companies that are part of the first group of beneficiaries of EU funding registers positive values for this index, while a significant part of the companies in the second group record negative values for it.

In terms of return on capital and reserves for the companies in the first group an average of 6.23% is recorded, while for companies in the second group the average value of this indicator is - 4.81%. Also, based on the data presented in Table 1, the highest values for this indicator (27.84% and 14.7%) correspond to companies that receive non-repayable financial assistance.

The change in net profit during the last 12 months indicator is favorable to companies from the second sample (the average value of this indicator is 45.5%), companies benefiting from European funds grants recording an average of 18.5% for this indicator. Therefore, the net profit recorded by the beneficiaries of EU financing had an average upward trend more temperate than the net profit recorded by the companies that are not benefiting from European funds. This might be explained if we take into account the fact that the first review group of companies registered in the first year of European financed projects' implementation significant investment costs in order to support the implementation of these projects.

The change in turnover in the last 12 months indicates a favorable trend of the first group of companies (the average value of this indicator was 13.6%), some of the companies in the second group recording a contraction in turnover (the average value of the indicator at the level of the second group of companies was -0.8%). This result may mean that, as regards the companies benefiting from

European funds grants, projects (projects completed or under implementation) recorded a first effect of increasing production capacity and sales, so they start to produce results. As subsequent, completion of the investment project will lead to more reduced costs, being likely a more favorable effect on the dynamics of increased net profit for these companies.

Using the data in the tables 5.6 and 5.7, and the 2 graphs presented above we can try making a comparative analysis between the results obtained for each indicator (from 1 January 2011 to 30 September 2011) by each of the two groups of companies which make up the sample analysis.

#### **4. Conclusions**

In conclusion, as a result of the study conducted for the two periods, it can be stated that the non-reimbursable funds may explain at least in part the better financial results obtained by companies benefiting from this type of financing in comparison with the financial results obtained by companies which do not benefit from such European funds.

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**Table 1:** Financial performance during Jan 1st – Dec 31st 2011

Company	Debt-to-equity ratio	Liquidity index	Net profit margin	Return on equity	Net profit growth (last 12 months)	Turnover growth (last 12 months)
Alro Slatina	52.14%	3.77	10.19%	14.70%	42.89%	23.68%
Altur Slatina	54.74%	1.04	0.28%	0.35%	-87.16%	15.79%
Alumil Rom Industry Bucuresti	23.41%	3.9	4.98%	5.47%	69.43%	9.17%
Antibiotice Iasi	49.72%	1.92	7.20%	7.07%	61.88%	15.69%
Comelf Bistrita	158.54%	1.08	0.65%	2.91%	77.28%	29.48%
Electroarges SA Curtea de Arges	76.07%	1.89	5.82%	27.84%	-3.60%	20.07%
Electromagnetica SA	17.61%	1.92	3.04%	5.60%	-	-
Romcarbon SA Buzau	72.16%	0.57	2.53%	2.04%	-	-5.26%
Teraplast SA	79.04%	1.19	-6.99%	-	-	-1.59%
Vae Apcarom Buzau	29.43%	2.97	7.95%	11.60%	23.15%	21.76%
Vrancart Adjud	142.20%	0.9	1.22%	2.26%	-35.67%	7.21%
Amonil Slobozia	30.38%	1.53	-236.21%	-	-	-91.36%
Artego SA	87.43%	1.3	2.19%	5.51%	-	-
Bermas Suceava	27.14%	2.12	8.29%	8.31%	-1.46%	-4.26%
Biofarm Bucuresti	17.50%	4.37	15.22%	9.24%	-1.35%	13.55%
Boromir Prod SA Buzau (Spicul)	23.06%	1.75	0.79%	0.91%	132.18%	16.97%
Carbochim Cluj Napoca	13.80%	2.08	4.84%	2.27%	-31.01%	7.24%
Compa S.A. Sibiu	60.44%	1.64	3.65%	5.94%	82.54%	14.94%
Condmag SA	41.06%	1.98	0.75%	0.64%	-92.78%	-42.70%
Dafora SA Medias	177.78%	1.23	1.24%	1.27%	-75.35%	-16.79%
Electroaparataj SA	14.16%	6.43	-20.00%	-	-	-12.39%
Electrocontact Botosani	26.15%	2.51	-8.75%	-5.10%	-	-13.46%
Energopetrol Campina	214.75%	1.47	0.32%	0.57%	5.77%	-12.40%
Farmaceutica Remedea SA	304.13%	1.05	2.00%	10.24%	108.10%	11.45%
Mecanica SA Ceahlau	16.03%	3.69	22.95%	16.89%	226.06%	42.24%

Mefin Sinaia	14.50%	7.02	0.06%	0.03%	-	4.85%
Prefab SA Bucuresti	29.36%	1.89	1.42%	0.45%	-72.71%	-9.45%
Prodplast Bucuresti	5.86%	14.71	5.44%	6.16%	73.81%	11.42%
Retrasib SA Sibiu	107.74%	1.11	2.88%	5.16%	-	-
SC Concefa SA Sibiu	263.92%	0.63	-61.01%	-85.05%	-	-23.87%
Sinteza Oradea	6.70%	1.1	-9.35%	-0.79%	-	51.82%
Siretul Pascani	135.71%	1.33	-8.82%	-6.26%	-	14.77%
Socep Constanta	6.08%	13.34	12.00%	7.11%	58.93%	28.62%
Transilvania Constructii SA Cluj	38.96%	1.82	2.51%	0.84%	224.00%	21.70%
Turbomecanica Bucuresti	133.39%	0.61	-41.75%	-28.75%	-	-12.57%
VES SA Sighisoara	133.00%	0.94	-13.56%	-26.24%	-	-19.21%

**Source of data:** Bucharest Stock Exchange, [www.ktd.ro](http://www.ktd.ro); calculations by the authors

**Table 2:** Financial performance during Jan.1st – Sept.30th 2012

Company	Debt-to-equity ratio	Liquidity index	Net profit margin	Return on equity	Net profit growth (last 12 months)	Turnover growth (last 12 months)
Alro Slatina	61.93%	1.16	4.98%	5.60%	-64.57%	-7.08%
Altur Slatina	53.32%	1.1	2.15%	1.71%	653.74%	-14.50%
Alumil Rom Industry Bucuresti	32.81%	3.47	5.25%	3.68%	-16.57%	-3.42%
Antibiotice Iasi	49.22%	2.01	12.39%	8.81%	7.27%	6.90%
Comelf Bistrita	162.11%	1.08	2.47%	7.91%	83.18%	2.02%
Electroarges SA Curtea de Arges	61.84%	2.24	8.62%	22.17%	69.47%	11.52%
Electromagnetica SA	17.10%	2.17	4.46%	5.19%	-14.43%	-15.26%
Romcarbon SA Buzau	106.43%	0.58	-3.42%	-2.61%	-	20.53%
Teraplast SA	101.14%	1.05	-0.76%	-1.06%	-	9.35%
Vae Aparom Buzau	54.42%	2.07	8.79%	8.70%	0.60%	-8.15%
Vrancart Adjud	128.48%	0.92	2.41%	3.55%	137.45%	10.30%
Amonil Slobozia	23.42%	1.31	-101.74%	-3.40%	-	-75.09%
Artego SA	69.80%	1.43	4.78%	8.04%	-	-
Bermas Suceava	18.45%	3.01	11.29%	9.97%	-11.95%	3.10%
Biofarm Bucuresti	14.29%	5.16	22.47%	10.82%	26.14%	14.94%
Boromir Prod SA Buzau (Spicul)	20.55%	2.11	0.30%	0.20%	110.37%	-25.17%
Carbochim Cluj Napoca	15.94%	1.88	3.28%	1.14%	-51.15%	-5.02%
Compa S.A. Sibiu	55.94%	1.64	5.42%	6.76%	69.46%	12.63%
Condmag SA	42.08%	1.83	-16.35%	-9.34%	-	-7.42%
Dafora SA Medias	211.81%	1.21	-12.00%	-8.20%	-	-13.67%
Electroaparataj SA	17.05%	5.16	1.32%	0.21%	-	5.62%
Electrocontact Botosani	21.40%	2.72	-15.77%	-6.32%	-	-
Energopetrol Campina	125.43%	1.72	0.03%	0.03%	-50.91%	-12.58%
Farmaceutica Remedia SA	336.30%	1.04	2.48%	10.14%	4.36%	18.53%
Mecanica SA Ceahlau	6.99%	8.09	23.39%	11.78%	-16.08%	-4.29%
Mefin Sinaia	12.40%	9.38	0.10%	0.04%	-98.95%	0.40%

Prefab SA Bucuresti	36.86%	1.59	1.83%	0.45%	35.69%	-6.24%
Prodplast Bucuresti	1.38%	59.81	5.72%	2.70%	-36.56%	-43.32%
Retrasib SA Sibiu	167.99%	1.02	-4.71%	-4.85%	-	-16.57%
SC Concefa SA Sibiu	371.53%	2.5	-105.75%	-	43.35%	-66.31%
Sinteza Oradea	10.48%	0.95	4.81%	0.51%	-	79.38%
Siretul Pascani	195.00%	1.13	-49.30%	-	28.39%	-12.04%
Socep Constanta	5.48%	6.84	6.64%	2.68%	-61.95%	-6.04%
Transilvania Constructii SA Cluj	32.89%	2.06	-1.91%	-0.39%	-	-26.92%
Turbomecanica Bucuresti	152.63%	0.46	-17.14%	-9.57%	-	8.21%
VES SA Sighisoara	140.50%	0.88	-14.42%	-	16.62%	-21.72%

**Source of data:** Bucharest Stock Exchange, www.ktd.ro; calculations by the authors

**Table 3:** The evolution of averages of indicator values between the two periods investigated

Financial indicators	Jan.1st – Dec.31st 2011		Jan.1st – Sept.30th 2012	
	Average values for beneficiary companies	Average values for non-beneficiary companies	Average values for beneficiary companies	Average values for non-beneficiary companies
<b>Debt-to-equity ratio</b>	68.64%	77.16%	75.35%	84.26%
<b>Liquidity index</b>	1.92	3.11	1.62	5.00
<b>Net profit margin</b>	3.35%	-12.52%	4.30%	-9.81%
<b>Return on equity</b>	6.23%	-4.81%	5.79%	-2.60%
<b>Net profit growth (last 12 months)</b>	18.53%	45.48%	95.13%	-6.79%
<b>Turnover growth (last 12 months)</b>	13.60%	-0.82%	1.11%	-8.68%

**Source of data:** Bucharest Stock Exchange, www.ktd.ro; calculations by the authors





## **EMERGENCY MANAGEMENT, CURRENT ISSUES AND PERSPECTIVES ON NATIONAL AND INTERNATIONAL LEVEL**

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### ***Abstract:***

*In the geostrategic context of multiplication and growth of the non-military risks upon the national security, at national level, a modern legal framework in the area of emergency management was established.*

*Through Government Emergency Ordinance no.21/2004, approved with modifications and completions through Law no.15/2005, National Management System of Emergency Situations was founded, with the purpose of preventing and managing emergency situations, which also ensures the civil protection management - component of the national security system, according to the provisions of Law no.481/2004 regarding the civil protection, republished.*

*Within this framework, were established: National Committee for Emergency Situations, under the direct management of the minister of internal affairs and coordination of the prime-minister, and the county, respectively the Bucharest Municipality Committees for Emergency Situations, under the coordination of the prefect - the local representative of the Government.*

*In regards to the international cooperation in the field, with The United Nations Organization, The North Atlantic Treaty Organization, and The European Union, it is to be remarked the fact that the management of the emergency situations is a national competency activity, these having only a supporting role for the member states and a debate forum role, through specialized structures constituted in this sense: United Nations Office for the Coordination of Humanitarian Affairs - the part of the United Nations Secretariat, The Euro-Atlantic Disaster Response Coordination Centre, Monitoring and Information Centre - within the European Commission.*

*Communication and public information plays a key role in the management of emergency situations.*

**Keywords:** National Management System of Emergency Situations, the prefect, the European Union, the intergovernmental cooperation, good global governance.

### **1. Preliminaries**

In the framework of membership in the North Atlantic Treaty Organization and the European Union, Romania plays an active role in promoting policies and mechanisms for building up new security architecture.

Since the first half of 2004, given the need for further integration into the European and Euro-Atlantic organization in the context of accelerating globalization trends, of radical climate change, of development of scientific experiments with unpredictable effects, of diversification of economic activities with hazardous substances, Romania has established a modern legal framework and improved management mechanisms capable of providing emergency management, consistently and professionally with a view to quickly restore normality.<sup>1</sup>

In this respect, the National Management System of Emergency Situations was established on national level providing emergency prevention and management and civil protection management.

National Management System is composed of: emergency committees, the General Inspectorate for Emergency Situations, professional community public services for emergency, emergency operative centres and the master action.

National Committee for Emergency Situations is established within the National System, under the immediate leadership of the minister of internal affairs and coordinated by the prime-minister.

County and Bucharest emergency committees are organized and operating under the prefect of the county, and prefect of Bucharest respectively. The role of the prefect<sup>2</sup>, as local government representative, is significant, being a chairman of the county emergency Committee and head of the civil protection, according to

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<sup>1</sup> *Government Emergency Ordinance no. 21/ 2004 on the National Management System of Emergency Situations*, published in the Official Gazette of Romania, Part I, no. 361 of April 26, 2004, approved with amendments and supplements by *Law no. 15 of February 28, 2005*, published in Official Gazette of Romania, Part I, no. 190 of March 7, 2005.

<sup>2</sup> With reference to the role and duties of the prefect: Antonie Iorgovan, *Administrative Law Treatise*, Vol. All Beck Publishing House, Bucharest, 2005, pp. 538-539; Verginia Vedinas, *Administrative Law*, University Course, 7<sup>th</sup> Edition, Revised and updated, Universul Juridic Publishing House, Bucharest, 2012, p. 495.

*Law nr.340/2004 on prefect and prefect institution*,<sup>1</sup> republished, with subsequent amendments and supplements.

Although, within the European Union, security is an area that works on intergovernmental cooperation, which allows the state to maintain high degree of autonomy in decision-making process, in all fields of international relations the Union operates to ensure a high level of cooperation, including in assisting populations, countries and regions confronting natural or man-made disasters and promotion of an international system based on stronger multilateral cooperation and good global governance [Lisbon Treaty, Title V, Chapter 1 - General Provisions on Union's External Action, Article 21, par. (2), g-h), of the Treaty on European Union]<sup>2</sup>.

## **2. Clarification of terminology**

Within the meaning of the *Government Emergency Ordinance no. 21/2004 on the National Management System of Emergency Situations*, *emergency* is an exceptional, non-military event, which by its ampleness and intensity threatens the life and health of the population, the environment, the important material and cultural values; to restore the state of normality urgent measures and actions, additional resources and unified management of forces and means involved are necessary.

Within the meaning of *Law nr. 481/2004 on civil protection*, republished,<sup>3</sup> with subsequent amendments and supplements *civil protection situation* is the situation caused by the imminence or occurrence of disaster, military conflicts and / or other unconventional situations which, by the level of severity, endangers or affects the life, environment, property and cultural and heritage values, according to the provisions.

*Management of emergency situations* consists in all activities developed and procedures used by policy makers, public institutions and services qualified to identify and monitor risk sources, evaluate information and analyze the situation, develop forecasts, establish the alternative action and implementation thereof in

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<sup>1</sup> Published in the Official Gazette of Romania, Part I, no. 658 of July 21, 2004, republished in the Official Gazette of Romania no. 225 of March 24, 2008.

<sup>2</sup> Beatrice Andresan-Grigoriu; Tudorel Stefan, *European Union Treaties*, official version, consolidated as a result of the entry into force of the *Treaty of Lisbon*, Bucharest, Hamangiu Publishing House, 2010, pp.18-19.

<sup>3</sup> Published in the Official Gazette of Romania, Part I, no. 1094 of November 24, 2004, republished in the Official Gazette of Romania, Part I, no. 554 of July 22, 2008.

order to restore the normality situation, as provided under Article 2, g), of Government Emergency Ordinance no. 21/2004.

*Civil protection*, a component of the national security system, is an integrated set of specific activities, organizational, technical, operational, humanitarian and public information tasks and measures, planned, organized and carried out to prevent and reduce the risk of disaster, protect the people, property and the environment against the adverse effects of emergencies, armed conflicts and to efficiently remove consequences thereof and to ensure necessary conditions for survival of people affected, according to Article 1, par. (1), of Law no. 481/2004.

### **3. Legal and institutional framework on emergency management in Romania**

Under the National Management System, the National Committee for Emergency Situations ensures the fulfilment of specific tasks to achieve the objectives of the International Strategy for Disaster Reduction<sup>1</sup> in Romania.

General Inspectorate for Emergency Situations<sup>2</sup> coordinates at national level the institutions involved in emergency management, in line with internationally established, UN, NATO, EU specific principles, and other bodies to which Romania is a party and ensures the relationships with international bodies and organizations with responsibilities in emergencies, being a National Contact Point, according to the *Government Decision no. 1490/2004 for the approval of the Organization and Functioning Regulations and of the General Inspectorate for Emergency Situations organizational chart*, as amended and supplemented<sup>3</sup>.

Prefect, as chairman of the county / Bucharest emergency Committee and civil protection chief uses special funds allocated from the state budget and the

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<sup>1</sup> *International Strategy for Disaster Reduction*, available on The United Nations Office for Disaster Risk Reduction, website: <http://www.unisdr.org/who-we-are/international-strategy-for-disaster-reduction>, consulted on 29.04.2013.

Fourth session Geneva, Switzerland 19-23 May 2013 Global Platform Highlights - Thursday, May 23, posted: 23/5/2013: Global Platform for Disaster Risk Reduction concludes in Geneva, urging greater role for private sector, communities and children. Available on the website:

<http://www.preventionweb.net/globalplatform/2013/news/view/33342>, consulted on 29.04.2013.

<sup>2</sup> General Inspectorate for Emergency Situations, available on the website: [http://www.igsu.ro/organizare\\_despre\\_noi.html](http://www.igsu.ro/organizare_despre_noi.html), consulted on 29.04.2013.

<sup>3</sup> Published in the Official Gazette of Romania, Part I, no. 884 of September 28, 2004.

logistics of intervention in crisis situations in order to smoothly run these activities under Law no.340/2004.

Principles of emergency management are<sup>1</sup>: *prediction and prevention*, priority protection and rescue of people's lives, *compliance with the fundamental rights and freedoms*, *accountability* for emergency management of the public administration authorities; *cooperation at national, regional and international level* with similar bodies and organizations; transparency of activities carried out for the emergency management, *continuity and gradualness* of emergency management activities, *efficiency*, *active cooperation and hierarchical subordination* of the components in the National System.

Emergency management, including also civil protection and fire protection, involves public information activities, for which reason during 2008-2010 the *National Strategy for Communication and Public Information for Emergency Situations*<sup>2</sup> was implemented, coordinated by the National Committee for Emergency Situations. The strategy is part of the package of measures needed to launch a national campaign for public education and information on emergency which was conducted in the "*Project of risk mitigation in case of natural disaster and emergency preparedness*"<sup>3</sup>, financed by the Loan Agreement between Romania and the International Bank for Reconstruction and Development.

According to *National Public Policy Strategy 2010-2013*<sup>4</sup>, natural or man-made disasters are challenges in the field of public policy, affecting the security of individuals.

It is well known the fact that Romania is in the European high risk area of devastating earthquakes, and this fact should be taken into account by the central and local public authorities, whose priorities should include permanent information of the population to make it develop appropriate behaviour - before, during and after emergencies.

The strategy was approved following confrontation with extreme weather phenomena - water overflows, floods, landslides - which required concerted efforts of the structures in charge for limiting and eliminating the effects they produce.

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<sup>1</sup> Art. 3 of the Government Emergency Ordinance no. 21/2004.

<sup>2</sup> Approved by *Government Decision no. 548/2008*, published in Official Gazette of Romania, Part I, no. 426 of June 6, 2008.

<sup>3</sup> The project was financed by the Loan Agreement between Romania and the International Bank for Reconstruction and Development, approved by *Law no. 389/2004*, published in Official Gazette of Romania, Part I, no. 934 of October 13, 2004.

<sup>4</sup> Approved by *Government Decision no. 1040/2010*, published in Official Gazette of Romania, Part I, no. 721 of October 28, 2010.

For example, in early July 2010 in view of the critical situation caused by floods in Romania, (the Danube reached its highest level in history in Galati, threatening the entire city with its waters, and the Siret and Prut destroyed hundreds of homes, leaving thousands of victims and casualties), the authorities in Romania called Community support, activating the EU Civil Protection Mechanism. A few hours after this call, the first offers of assistance have arrived from neighbouring states (teams of specialists, pumping and water filtration systems and power generators), and Kristalina Georgieva, the European Commissioner for International Cooperation, Humanitarian Aid and Crisis Response visited the flood affected areas, appreciating the European solidarity demonstrated also in the case of floods in Romania.<sup>1</sup>

#### **4. Legal and institutional framework in the field, on European Union (EU) level**

In the area of humanitarian action, including humanitarian aid and civil protection under the Treaty of Lisbon entered into force on December 1, 2009, the European Union may conduct operations and a European policy to complement the Member States policy, whereby the European Commission ensures that national and European actions are properly coordinated, which means that the Union has *derogatory shared competence* in this matter.<sup>2</sup>

The European Union has two main instruments to mobilize skills and resources in the field of **civil protection** and **humanitarian assistance** in order to ensure legally based, rapid and effective response, namely the Treaty of Lisbon provisions: Article 196 of the Treaty on the Functioning of European Union (TFEU), Part III - *Union policies and internal actions*, Title XXIII - Civil Protection, which allows the EU to improve European coordination in disaster, and article 122 of the TFEU, Part III, Title VIII - Economic and Monetary Policies, Chapter 1 - Economic Policy, which provides the establishment of solidarity financial assistance.<sup>3</sup>

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<sup>1</sup> *EU Civil Protection Mechanism - European Solidarity in Critical Situations*, European Commission Representation in Romania, 23/09/2010, available on the website: [http://ec.europa.eu/romania/news/articole\\_si\\_dialoguri/art\\_iul\\_mecanismul\\_ue\\_de\\_protectie\\_civila\\_ro.htm](http://ec.europa.eu/romania/news/articole_si_dialoguri/art_iul_mecanismul_ue_de_protectie_civila_ro.htm), consulted on 22.04.2013.

<sup>2</sup> *General Directorate for Humanitarian Aid and Civil Protection*, available on the website: [http://europa.eu/legislation\\_summaries/humanitarian\\_aid/r10003\\_ro.htm](http://europa.eu/legislation_summaries/humanitarian_aid/r10003_ro.htm), consulted on 27.03.2013.

<sup>3</sup> Beatrice Andresan-Grigoriu; Tudorel Stefan, *EU Treaties*, Bucharest, Hamangiu Publishing House, 2010, works cited, pp.133-134 and p. 94.

According to the Treaty of Lisbon, art. 214, par. (1) TFEU, Part V - *Union's External Action*, Title III - Cooperation with third countries and humanitarian aid, Chapter III - Humanitarian aid: EU actions in the field of humanitarian aid are conducted within the principles and objectives of the Union's external action and the actions of the EU and the Member States are complementing and reinforcing each other; according to art. 214, par. (7): the Union ensures that its humanitarian aid operations are coordinated and consistent with those of the international organizations and bodies, in particular those forming part of the United Nations.<sup>1</sup>

*Fundamental humanitarian principles* underlying the actions in the field of the European Union are: *humanity* - assumes that human suffering must be fought wherever it is found, with particular attention to the most vulnerable segments of the population and respecting, protecting the dignity of all victims; *neutrality* - humanitarian aid does not favour any side in a conflict or dispute, *impartiality* - humanitarian aid must be provided solely on the basis of need, without discrimination between or within affected populations, *independence* - autonomy of humanitarian objectives in relation to the political, economic, military or other objectives and must ensure that the only purpose of humanitarian aid remains the relief and prevention of crisis suffering victims.<sup>2</sup>

According to the EU Commission's Communication of February 23, 2009<sup>3</sup> the Union territory is affected by natural or man-made disasters, and the number and incidence is increasing particularly due to climate and urban change, and industrial development. European Commission shows that a European approach should enhance the effectiveness of preventive action and complement of national

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<sup>1</sup> Beatrice Andresan-Grigoriu; Tudorel Stefan, *EU Treaties*, Bucharest, Hamangiu Publishing House, 2010, works cited, pp. 141-142.

<sup>2</sup> *Joint Statement of the Council and the Representatives of the Governments of the Member States convened within the Council, the European Parliament and the European Commission* (2008 / C 25/01), 30.1.2008, Official Journal of the European Union C 25/1, available on the website: <http://eur-lex.europa.eu/LexUriServ/Lex>, consulted on 25.04.2013.

<sup>3</sup> *Commission's Communication to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions* of February 23, 2009 entitled "A Community approach on the prevention of natural or man-made disasters", Not published in the Official Journal, available on the website: [http://europa.eu/legislation\\_summaries/environment/civil\\_protection/pr0005\\_fr.htm](http://europa.eu/legislation_summaries/environment/civil_protection/pr0005_fr.htm), consulted on 15.04.2013.

actions in certain areas, and citizens need to be better informed about the preventive measures and the existence of the emergency call number 112<sup>1</sup>.

Regarding the institutional framework, to strengthen cooperation between Member States in cases of natural, industrial or man-made crisis and emergency, the EU introduced in 2001 the Community Civil Protection Mechanism<sup>2</sup>.

The main role of the mechanism is to facilitate cooperation in civil protection assistance interventions in the event of major emergencies, in accordance with the *principle of subsidiarity*, by offering support upon the request of the affected country. This occurs by pooling the civil protection capabilities of the participating states<sup>3</sup>, when the affected country is not ready enough to provide an adequate response in terms of available resources.

Civil Protection Community Mechanism has a number of tools to facilitate both adequate preparedness and effective response to disasters in Europe:

*Monitoring and Information Centre* (MIC)<sup>4</sup> is the operational heart of the Mechanism, working closely with national crisis centres across the 32 countries participating in the Mechanism (EU-27, Croatia, the Former Yugoslav Republic of Macedonia, Iceland, Liechtenstein and Norway). MIC intervention and support teams sent by EU for a disaster area are subject to local laws and remain under the supervision of national authorities of the affected country.

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<sup>1</sup> European emergency number 112 was established by Council Decision of 29 July 1991 (91/398/EEC). The single European emergency number 112 was set up so that European citizens in distress situations are able to get through to the emergency services in all Member States, according to the website:

[http://ec.europa.eu/echo/policies/disaster\\_response/112\\_en.htm](http://ec.europa.eu/echo/policies/disaster_response/112_en.htm), consulted on 29.04.2013.

<sup>2</sup> *Humanitarian aid and civil protection, The Community mechanism for civil protection* It is a tool that enhances community co-operation in civil protection matters and was established by the Council Decision of 23 October 2001. A Recast of this Council Decision was adopted on 8 November 2007. Available on the website:

[http://ec.europa.eu/echo/policies/disaster\\_response/mechanism\\_en.htm](http://ec.europa.eu/echo/policies/disaster_response/mechanism_en.htm), consulted on 29.04.2013.

<sup>3</sup> 27 EU Member States and Other participating States (Iceland, Liechtenstein, Norway, Croatia, former Yugoslav Republic of Macedonia). Since its creation in 2001, the Mechanism has been activated for over 150 times, for very different types of disasters, according to the website:

[http://ec.europa.eu/echo/policies/disaster\\_response/mechanism\\_en.htm](http://ec.europa.eu/echo/policies/disaster_response/mechanism_en.htm), consulted on 29.04.2013.

<sup>4</sup> *Monitoring and Information Centre*, available on the website: [http://ec.europa.eu/echo/policies/disaster\\_response/mic\\_en.htm](http://ec.europa.eu/echo/policies/disaster_response/mic_en.htm), consulted on 28.04.2013.



The Common Emergency and Information System (CECIS)<sup>1</sup> is a web alert system created with the intention to facilitate emergency communication between participating states, which provides an integrated platform to send and receive alerts.

A training programme ensures compatibility and complementarity between the intervention teams of the participating countries, through training, joint exercises and exchange of experts.

Civil protection modules are made of national resources from one or more Member States on a voluntary basis.

Regarding the challenges related to the implementation of the *European Consensus on Humanitarian Aid* (2007) and *Action Plan* (2008)<sup>2</sup>, in 2010, the European institutions involved have communicated<sup>3</sup> that for continuous application the following issues must be taken into account: the lack of a more accurate allocation of tasks, of a better exchange of information and expertise, and of a clearer division of labour, while the EU will quickly deplete the leadership potential and the ability to have a concerted contribution to the overall improvement of humanitarian response.

With reference to the European legislative instruments for disaster risk management, we provide the following examples: *SEA Directive on environmental impact of public and private project*<sup>4</sup>, *Seveso Directive on technological hazard*<sup>5</sup>, and the provisions relating to anti-seismic technical standards of construction and management of floods and oil spills.

In the future, until June 1, 2015, the date on which the new legislation on chemicals classification becomes fully applicable in Europe, Member States have

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<sup>1</sup> *The Common Emergency and Information System*, available on the website: [http://ec.europa.eu/echo/policies/disaster\\_response/mechanism\\_en.htm](http://ec.europa.eu/echo/policies/disaster_response/mechanism_en.htm)

<sup>2</sup> *Commission of The European Communities*, Brussels, 29.5.2008, *Commission Staff Working Paper, European Consensus on Humanitarian Aid – Action Plan*, available on the website: [http://ec.europa.eu/echo/files/policies/consensus/working\\_paper\\_en.pdf](http://ec.europa.eu/echo/files/policies/consensus/working_paper_en.pdf), consulted on 12.04.2013.

<sup>3</sup> *Communication from The Commission to The European Parliament and The Council The mid-term review of the European Consensus on Humanitarian Aid Action Plan - implementing effective, principled EU humanitarian action*, European Commission, Brussels, 8.12.2010, available on the website: [http://ec.europa.eu/echo/files/policies/consensus/mid-term\\_review/1\\_EN\\_ACT\\_part1\\_v21.pdf](http://ec.europa.eu/echo/files/policies/consensus/mid-term_review/1_EN_ACT_part1_v21.pdf), consulted on 28.04.2013.

<sup>4</sup> *Strategic Environmental Assessment – SEA*, available on the website <http://ec.europa.eu/environment/eia/sea-legalcontext.htm>, consulted on 30.04.2013.

<sup>5</sup> *Chemical Accidents (Seveso III) - Prevention, Preparedness and Response*, <http://ec.europa.eu/environment/seveso/index.htm>, consulted on 30.04.2013.

to transpose and implement the Seveso III to Directive 2012/18/EU, adopted on July 4, 2012 and entered into force on August 13, 2012.<sup>1</sup>

Regarding international cooperation, European Commission states the concordance of the *EU Strategy for supporting disaster risk reduction in developing countries*<sup>2</sup> with the *International Hyogo 2005 - 2015 for Disaster Reduction*<sup>3</sup>.

### **5. Legal and institutional framework in the field, of North Atlantic Treaty Organization (NATO)**

*The Euro-Atlantic Disaster Response Coordination Centre (EADRCC)*<sup>4</sup> was designed as a regional coordination mechanism to support and complement the efforts of the UN; it is NATO main mechanism for response to civil emergencies in the Euro-Atlantic area, and involves 28 NATO allies plus 22 partner countries and works to coordinate assistance requests and offers in case of natural and manmade disasters. The EADRCC also serves as a tool for exchange of information on disaster assistance and annually carries out large-scale field exercises (it carried out such exercises in Ukraine, Croatia, Russian Federation, Uzbekistan, Romania, Italy, Finland, Kazakhstan, Armenia, Turkey, and Moldova).

*Civil Emergency Planning Committee (CEPC)*<sup>5</sup> also supervises EADRCC activities at NATO Headquarters, which acts as a central point for coordinating disaster relief efforts among NATO and partner countries and in countries where NATO is engaged in military operations.

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<sup>1</sup> *Chemical Accidents (Seveso I, II and III) - Prevention, Preparedness and Response, European Commission*, available on the website: <http://ec.europa.eu/environment/seveso/>, consulted on 30.04.2013.

<sup>2</sup> *Communication from the Commission to the Council and the European Parliament EU Strategy for supporting disaster risk reduction in developing countries*, Brussels, 23.2.2009 This Communication proposes an EU strategy for supporting DRR in developing countries through both development cooperation and humanitarian aid, to help support the 2005 Hyogo Framework for Action. Available on the website: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do> (...), consulted on 30.04.2013

<sup>3</sup> *Hyogo Framework for Action (HFA), Building The Resilience Of Nations And Communities To Disasters*. It was endorsed by the UN General Assembly in the [Resolution A/RES/60/195](#) following the 2005 World Disaster Reduction Conference, held in Kobe, Hyogo, Japan, from 18 to 22 January 2005. Available on the website: <http://www.unisdr.org/we/coordinate/hfa>, consulted on 27.04.2013.

<sup>4</sup> *The Euro-Atlantic Disaster Response Coordination Centre*, available on the website: [http://www.nato.int/cps/en/natolive/topics\\_52057.htm](http://www.nato.int/cps/en/natolive/topics_52057.htm), consulted on 27.04.2013.

<sup>5</sup> *Civil Emergency Planning Committee*, available on the website: [http://www.nato.int/cps/en/natolive/topics\\_50093.htm](http://www.nato.int/cps/en/natolive/topics_50093.htm), consulted on 27.04.2013.

*The subsidiarity principle* governs NATO operations in the field; the intervention of the organization is achieved only when the affected state is beyond its capacity, based on the application thereof.<sup>1</sup>

EADRCC tasks are performed in close cooperation with the United Nations Office for the Coordination of Humanitarian Affairs, which keeps the leading role in coordinating international disaster relief operations.

## **6. Legal and institutional framework in the field, of the United Nations (UN)**

*United Nations Office for the Coordination of Humanitarian Affairs (OCHA)*<sup>2</sup> is part of the United Nations Secretariat and has the mission of mobilizing and coordinating humanitarian action in partnership with national and international actors in order to alleviate human suffering in disasters and emergencies, and to promote preparedness and prevention, and to facilitate sustainable solutions.

*International Search and Rescue Advisory Group (INSARAG)*<sup>3</sup>: Group activities are guided by UN General Assembly Resolution 57/150 of December 16, 2002 on "Strengthening the effectiveness and coordination of urban search and rescue international assistance", and INSARAG Hyogo Declaration adopted at the global meeting in 2010 in Kobe, Japan.

## **7. Conclusions**

National experience in the field has shown that the National Management System of Emergency Situations is, by its components with permanent and temporary activity at central and local level, able to uniformly and professionally ensure emergency prevention and management, and civil protection in a process of continuous adaptation of skills and capabilities needed to provide an adequate response to the new challenges against national security.

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<sup>1</sup> Constantin Mostoflei, Grigore Alexandrescu, Cristina Bogzeanu, *Consequences management*, the "Carol I" National Defence University, Centre for Defence and Security Strategic Studies, "Carol I" National Defence University Publishing House, Bucharest, 2009, p 26, available at site:

[http://cssas.unap.ro/ro/pdf\\_studii/managementul\\_consecintelor.pdf](http://cssas.unap.ro/ro/pdf_studii/managementul_consecintelor.pdf), consulted on 27.04.2013.

<sup>2</sup>*United Nations Office for the Coordination of Humanitarian Affairs*, available on the website: <http://www.unocha.org/about-us/who-we-are>, consulted on 27.04.2013.

<sup>3</sup> *International Search and Rescue Advisory Group*, available on the website: <http://www.unocha.org/what-we-do/coordination-tools/insarag/overview>.

As shown, the prefect has a key role at local level in this area, providing leadership of emergency committees in the county and in Bucharest, as the representative of the Government, in the light of the constitutional provisions<sup>1</sup> according to which the Government oversees public administration.

European Commission stresses in the content of its communications that disaster prevention measures are primarily at national level, as emergency management is a responsibility of Member States.

As new risks and threats against security have a trans-boundary nature, they often have a trans-national impact and may affect the growth and competitiveness of the European Union and free movement of European citizens in Europe, complementary measures are taken for natural or man-made disaster management by facilitating the mobilization of skills and resources in civil protection and humanitarian assistance to enable improved coordination of interventions and use of existing tools.

Thus, the emergency management involves actions undertaken both inside and outside national and European borders.

Regarding the EU and NATO intervention, it is done based on the following principles: *subsidiarity* (they only intervene if their presence is necessary and only if they can bring added value to national action), *solidarity* (making databases which include capabilities of the states able to intervene in such cases where an event exceeds the capacity of a single state), *cooperation* between Member States and *interoperability* developed by conducting training and workouts.

The same principles underpin the cooperation with other international organizations, hence the foundations of cooperation and interoperability at international level are established,<sup>2</sup> for good global governance.

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<sup>1</sup> Art. 102 par. (1) of the *Constitution of Romania*, published in the Official Gazette of Romania, Part I, no. 233 of November 21, 1991, republished in the Official Gazette of Romania, Part I, no. 767 of October 31, 2003.

<sup>2</sup> To the same effect, Dr. Constantin Mostoflei, Dr. Grigore Alexandrescu, Cristina Bogzeanu, *Management of Consequence*, "Carol I" National Defence University Publishing House, Bucharest, 2009, cited works, pp. 61-62, available on the website: [http://cssas.unap.ro/ro/pdf\\_studii/managementul\\_consecintelor.pdf](http://cssas.unap.ro/ro/pdf_studii/managementul_consecintelor.pdf).

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## **RELEVANT FUNDING OF THE SMEs BUSINESS DEVELOPMENT IN ROMANIA IN THE CURRENT EUROPEAN CONTEXT INFLUENCED BY THE ECONOMIC CRISIS**

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### ***Abstract:***

*The business success of an economic entity largely depends on the funding politics they adopt, during which there is a need to identify those funding sources to ensure both the expected profit and the maximization of the value of the entity. In this respect, our scientific approach is in line with concerns about finding the most efficient funding sources of the SMEs activity in Romania in the context of the European economy strongly affected by the global economic crisis. The main objective of this approach has been to make an analysis on the prime funding sources of the eligible SMEs and on how they are relevant to the development of their activities, as well as on how they considerably contribute to the economic growth of the country.*

**Key words:** SMEs, funding, economic crisis, rate structure

**Jel Classification:** A10, L2, L26, O11, G01.

### **1. Introduction**

Small and medium-sized enterprises (SMEs) hold a crucial role in the development of every nation's economy, generating to a great extent part of GDP both in trade and industry or services. SMEs are characterized by dynamism, flexibility and innovation, being able to adapt to the changes that occur in economy, to rapidly sense the trends of the market and to be the promoters of change. The economic activity of the entity aims at obtaining profit and at maximizing the value for investors. To achieve this objective is not an easy thing, the management of the

company will have to take into account the uncertainty generated by the fact that the economic environment is characterized by constant change, the economic activity having a fluctuating evolution in time. Consequently, the development of an entity largely depends on the funding politics it adopts and on the need to identify those specific funding sources that will ensure maximum profit [1].

The economic crisis in the eurozone and the wave of sovereign debts hit the 23 million of existing European SMEs in 2011, SMEs that would provide two thirds of the number of jobs in the private sector. Under these circumstances, firms had to fund themselves, to adopt crisis strategies, to lay off employees in order to survive in an internal or/and European market that had a modest demand and lots of structural deficiencies.

Few European States have realized the importance of these enterprises and have initiated funding, re-funding and guaranteeing projects for SMEs. Most of them have left the most important source of jobs and of economic growth generator on the verge of abyss [7].

In Romania, statistically speaking, SMEs are present in a proportion of 99.7% of all enterprises, generating around two thirds of jobs in the private sector.

## ***2. The need of SMEs access to funding***

In practice, small and medium-sized enterprises can resort to the following ways of funding: own/ internal sources; external sources (bank loans); public sources; venture capital funds; commercial paper loans – factoring and discounting – government securities (shares or bonds) in the capital market, support to business incubators; equity participation and support granted to business angels.

When choosing a funding source, the entrepreneur must take into account the following *criteria*, beyond obviously their cost: the funding source experience in working with entrepreneurs; the funding source reputation; the assistance provided; other services (in some cases, the funding source offers free or at reduced rates services, such as financial statement analysis, elaboration of financial projections, elaboration of a business plan, etc.).

When it comes to SMEs particularly, the access to one or more of the funding sources mentioned above is closely related, on the one hand, to the development stage of the enterprise and, on the other hand, to the offer of funding sources available in the market at the time, and addressed to SMEs [2].

The funding sources from the category of those oriented to development and innovation are complex and require both an appropriate regulatory framework



and adequate institutions, too. Consequently, the access to funding is an extremely important factor in the development and growth of the SMEs since it influences their ability to invest in the economic relaunch after the period of economic and financial crisis [6].

Based on the analysis of the dynamics of the main forms of SMEs funding in Romania, one can notice an uneven degree of disponibility and accessibility of specific financial instruments for each phase in the development of an SME. On phases of evolution, it is noticed that [5]:

➤ **The necessary funding** when starting a business (pre-seed phase) doesn't seem to be an insurmountable difficulty, and this has been demonstrated by the average of more than 10,000 recorded entities per month in the pre-crisis period (2003-2007) and by the relatively small number of customers of the main 4 high microfunding societies;

➤ **The initial funding** (early stage; seed/start-up phase) is problematic for most of the entrepreneurs because of the lack of business angels networks with regional and national coverage, the lack of venture capital instruments (seed & early stage venture capital funds) and of hybrid and flexible funding instruments of relatively small amounts (up to 200,000 euro).

➤ **Funding the first stage of development** (emerging growth) is difficult especially for the new entities (start-up) and small innovative ones, for the same reasons mentioned with regards to the initial funding, noting that the amount needed is higher than for the former.

➤ **Funding the development** (emerging growth/development) of a SME by means of a bank credit is the form of financing slightly more developed, and it is supported by the guarantee funds. However, the bank credit is available for a maximum of 25% of the number of SMEs (especially medium-sized ones) as compared to 70-80% in the developed European countries.

➤ **Funding the development phase** of SMEs through venture capital investments (formal venture capital funds) and, respectively, through issuance of shares and bonds on the capital market is possible (for a few dozen of medium-sized entities), but extremely selective, due to a relatively high value of transactions (over 2 million euro) and due to rigorous criteria of selection which usually include a history of profitable operation for several years, an exceptional potential of growth and an enhanced market position.

In this context, the Government intend to act in support of diversity and a better targetting of financial instruments meant to sustain the SME sector, by

developing the existent instruments for an economic relaunch preparation, while maintaining restrictive conditions for funding the SMEs in the period of 2010 – 2011 and creating the required institutions and financial instruments [8].

Also, considering that investments represent a key element for economic recovery, for creating new jobs, for reducing technological delays, the Government seeks to encourage and support them as the main form of improving the SMEs access to funding.

A major issue SMEs are confronted with in the current conditions of the economic crisis is the reduced access to funding, a constraint that might jeopardize the resumption of the economic growth itself, considering the SME sector's contribution to GDP.

Under the circumstances, the necessity of funding from the European funds available for Romania after EU's membership represents an opportunity, not only in the context of socio-economic development in the National Development Plan of Romania 2007-2013, but also in the context of correcting the effects of the economic crisis. Moreover, the Authority for Structural Instruments Coordination (ASIC) in the National Strategic Report regarding the implementation of the Structural and Cohesion Funds – 2012 states that, although no elements to impose change strategy have been identified, elements approved at the level of National Strategic Reference Framework and operational programs in the context of the current economic situation, during the year 2013 we may consider the possibility of adjusting the approved operational programs in the sense of a rapid capital infusion into the economy in order to diminish crisis effects.

In the period 2007-2013, Romania has received non-repayable financial support from the European Union through the agency of 5 funds: the European Regional Development Fund (ERDF), the Cohesion Fund (CF), the European Social Fund (ESF), the European Agricultural Fund for Rural Development (EAFRD) and the European Fisheries Fund (EFF).

### **3. The characterization of funding sources for SMEs through specific potential rates**

The structural rates of funding sources for SMEs highlight the relative importance and the evolution in time of different methods used by the entity in order to cover the necessity of financial and material resources. The following are considered to be the most relevant:

**Indebtedness** is an indicator which offers the possibility to appreciate the way firms can pay their obligations by providing a measure of net results volatility. Among the main partial indicators, the following will be determined:

- **Debt Coverage Degree (DCD)** determined as the ratio between equity (E) and the amount of debt (AD)

$$DCD = \frac{E}{AD} \times 100$$

This shows a value of 34.8% at country level, the debt volume of the entire sector of SMEs amounting to 462,700 million, an increase with 6% as compared to the previous year. The highest values of the debt coverage are in Bucharest-Ilfov (36.9%), and in the Central part of the country (38.8%), while the lowest values can be found in the North-East (31.4%), South-East (31.2%) and South-West (31.4%). By region, the highest weight in the total SMEs sector debts is in Bucharest-Ilfov region (50.14%), followed at a distance by the rest of the regions with weights between 3.48% and 9.31%. The regional distribution of the debts' structure is shown in Table 1. A first observation refers to the improvement of the indicator's value as compared to 2005, when the level of this rate was 15.2%. The second observation concerns the relatively homogeneous level of the regions' indicator, all with values above 30%.

**Table 1. The Regional Structure of the  
Volume of Total Debt (%)**

Ref. No.	Development Region	Volume of total debt in 2011(%)
1.	North-East	6.44
2.	South-East	7.74
3.	South	7.20
4.	South-West	3.48
5.	West	7.35
6.	North-West	9.31
7.	Centre	8.34
8.	Bucharest - Ilfov	50.14

Source: White Paper of SMEs in Romania in 2012

▪ **Autonomy Global Rate (AGR)** characterizes the assets' coverage degree through the volume of equity whose details are to be found by regions in table 2.

$$AGR = \frac{CPR}{ACV} \times 100$$

The experts are of the opinion that a level of over 1/3 indicates a state of normality. As compared to the national average of 46.7% (-4% compared to 2010, respectively -15% from 2009) it is a state of relative normality, though deteriorating in the latest years.

**Table 2. Autonomy Global Rates  
by Development Regions**

Ref. No.	Development Region	AGR in the year 2011
1.	North-East	44.44
2.	South-East	47.7
3.	South	47.13
4.	South-West	55.6
5.	West	44.23
6.	North-West	42.50
7.	Centre	47.97
8.	Bucharest - Ilfov	47.1

Source: White Paper of SMEs in Romania in 2012

▪ **General Solvency Rate (GSR)** characterizes the way entities deal with debts. The indicator is calculated as the report between the volume of total assets (VTA) and the volume of total debt (VTD)

$$GSR = \frac{VTA}{VTD} \times 100$$

The minimum value of general solvency rate is considered to be 1/4, where the minimum weight of the equity in the total of funding sources is around 30%. For sub-unit values (or under 100) there is a major risk of insolvency of entities, a risk for the entities in all regions. Details on the value of the indicator, by region, are presented in table 3.

**Table 3. General Solvency Rates  
by Region**

Ref. No.	Development Region	GSR in the year 2011
1.	North-East	70.7
2.	South-East	65.5
3.	South	66.6
4.	South-West	65.0
5.	West	72.8
6.	North-West	68.7
7.	Centre	81.0
8.	Bucharest - Ilfov	78.4

Source: White Paper of SMEs in Romania in 2012

The situation is alarming, the rate being below 100% in all regions, still strongly improved as compared to 2008 when the national average was 28.1%, in 2010 it was 69.1% and in 2007 it was 75.8%, at present the national rate is 74.5%.

- **The Rotational Speed of the Capital (RSC)** is an indicator of efficiency of the equity's usage and it reflects the changes in the economic activity. The indicator is calculated as the report between the turnover (T) and the equity (E).

$$RSC = \frac{T}{E} \times 100$$

In a year, the speed was averaging 3.5 in 2008, 3.9 in 2009, respectively 3.2 in 2010. In comparison with 2008, the speed was reduced by 38% in 2009, and by 15% in 2010 as compared to 2008, in parallel with the regional homogenization. In 2010, the general trend was that of improving the rotational speed (+8,4% at national level), and in 2009 of deteriorating by 15% in parallel with a regional detachment, the efficiency classification is shown in table 4.

**Table 4. Equity Rotation Rate  
By Regions (%)**

Ref. No.	Development Region	ERRR in the year 2011(%)
1.	North-East	393.2
2.	South-East	406.9
3.	South	423.3
4.	South-West	411.3

5.	West	311.9
6.	North-West	404.9
7.	Centre	297.3
8.	Bucharest - Ilfov	280.1

Source: White Paper of SMEs in Romania in 2012

#### 4. Conclusions

The special extent known by the appearance and development of SMEs demonstrates that small business represent, for lots of individuals, the chance to record themselves in the social-economic competition race, which creates jobs and stock exchanges.

In most countries of the world, small business have crucially contributed to the economic development. The famous scientist Peter Drucker states that small business represent *"the primary catalyst of the economic growth"* [3]. Consequently, stimulating the SME sector should not focus mainly on conjunctural financial support measures which, while complying with the regulations in the field of competition, may introduce more volatility in the operating conditions and in anticipating the evolution of the business environment. Much more beneficial it would be for them to ensure a competitive business environment, stable and predictable.

The Government policies should stimulate the SMEs competitiveness in the long term, considering the major deficiency in competitiveness of the SME sector in Romania, as compared to the SMEs in the European Union. In this context, the identification of opportunities arising from the current crisis is of crucial importance, vis-à-vis the funding of SMEs, with regard to:

- granting credits for the cash-flow need of the SMEs throughout the projects' application;
- facilitating access to loan guarantees granted to SMEs through consolidated mechanisms for guaranteeing the loans;
- improving the access of the SMEs to the capital risk markets, as well as the measures aimed at raising awareness of the investors to the opportunities offered by the SMEs;
- granting the possibility for all banks, regardless of size, to easily implement flexible credit lines of the EIB and the EU's instruments;
- accessing funding programs, preferably with foreign funds, in order for that real infusion of capital to be accomplished, which is so necessary at present, too;

- proposing projects that truly respond to the needs of SMEs, significantly shortening the time of decision making, granting repayable funds to be used for payment of the consultants (these expenses are usually eligible in projects and they can be recovered).

According to the National Guarantee Credit Fund for Small and Medium-Sized Enterprises (NGCF SMEs), only 15% of the Romanian SMEs are credited by banks, while the percentage in the Union Europe approaches 70%. Funding represents one of the most important problems of the SMEs in Romania, many of these entities being affected by the reluctance of the banks to credit them. The SME sector acutely feels the need of specific funding instruments, of some guaranteeing schemes, of supporting the market access in the light of increasing competition in all areas.

Economic revival is subject to SMEs access to funding. The economic crisis has affected the relative weight of financial instruments required by SMEs: the demand for investment loans and leases has decreased dramatically, while the loan demand for working capital and guarantees has massively increased. Therefore, access to funding has been restricted by commercial banks, because of the financial crisis, affecting the business of small and medium-sized entrepreneurs by reducing net income and cash flows.

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## **MONEY POLICY IMPLEMENTATION AT NATIONAL LEVEL**

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### ***Abstract:***

*Article aims to highlight the effectiveness of inflation targeting strategy in Romania during the crisis. Thus, we present inflation in Romania in the period 2008 - 2012 and the strategy adopted inflation targeting in Romania during the crisis.*

*Working method used is to show the importance of inflation in the economy, the importance of targeting its strategies, especially their efficiency impact on the Romanian economy during the crisis.*

*The authors also try to highlight the relationship between inflation and economic imbalance condition where existing money supply in the economy overcomes real money demand, leading to a general rise in prices and declining purchasing power.*

**Keywords:** economic strategy; inflation targeting; economic imbalance; economic crisis.

**JEL Classification:** P24; L12; B22; E60.

### **1. Introduction**

Pressures generated by rising prices accentuate further pressure in monetary, economic, political, social levels. Thus, in addition to distorting the

price level, inflation generates a sharp erosion of savings, discourages investors favoring the migration of capital to assets that generate real additional income, most often in unproductive assets. This misalignment strongly affects the decisions of private economic sector in terms of investments, savings and even the development of production, the final effect materializing in lowering production<sup>1</sup>.

During inflation there are important structural changes in the national economy caused either by inflationary phenomena itself or some measure of economic policy led to inflationary process itself and its dimensions.

Since the central bank can not act directly on the inflation or on the real economy activity level, through these intermediate targets they are trying to connect between the action exerted by monetary policy instruments regarding short term objectives of monetary policy - i.e. operational objectives, objectives that can be achieved directly by the monetary authority - and the real economy activity and inflation<sup>2</sup>.

Whatever the form of inflation, it is mainly caused by the phenomenon of disparity. The phenomenon of inflation is caused not by the fact that a certain element - money supply - increases in absolute size, but that the change occurs inconsistent with other elements of monetary exchange, (i.e. the faster growth of the amount of money compared to growth of other economic variables). What matters is not the fact itself that the money supply increases, but that the money supply grows faster than the other elements with which it is normally correlated (monetary speed is exceeding the speed of real development).

Although inflation is always present to some extent, it does not mean it negatively affects the prosperity of the citizens. Increased welfare due to economic growth generally balances the declining purchasing power caused by inflation. Products may cost more, but the people can afford to spend more. However, people may find differences in the actual rates of inflation in everyday life.<sup>3</sup> It is caused by many factors, often complex, such as household type, differences in consumer paradigms of each country and region, national tax policies.

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<sup>1</sup> Croce, E., Khan, M., *Monetary Regimes and Inflation Targeting*, International Monetary Fund, Finance and Development Magazine, vol.37, no. 3/September 2000

<sup>2</sup> Walsh, C., E., *Monetary theory and policy*, Massachusetts Institute of Technology, 1998, pag. 86

<sup>3</sup> Burghelea, C., *Modelul dezvoltarii durabile*, Theoretical and Applied Economics, Bucharest, 2012, pp. 96-107

## 2. Research methodology

Romania has an open economy, small investments are funded mainly through the banking system rather than through the capital market. These features, without giving the ideal profile for the adoption of Romanian economy inflation targeting, have been shown to be compatible with this system.<sup>1</sup>

Inflation targets set by the central bank and the acceptable range for the change in the inflation rate in the next period are as follows (see Figure 1):

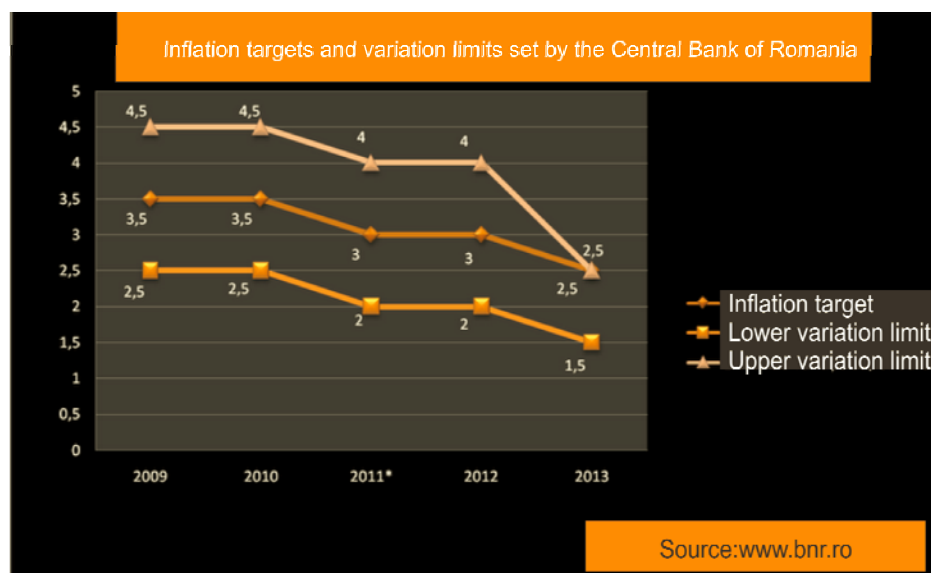


Figure 1. Inflation targets

Annual inflation targets were placed in recent years on a downward path, their level falling from 7.5 percent  $\pm$  1 percentage point in 2005 to 3.5 percent  $\pm$  1 percentage point in 2009 and 2010. The inflation target for the end of 2011 was lowered to 3 percent  $\pm$  1 percentage point. The option to emphasize in 2011 the downward trend of annual inflation targets was justified mainly by the prospect of sustained deceleration in inflation in the coming years, with the resort severe contraction suffered in 2009 by Romanian economy under the impact of global economic and financial crisis and the anticipated slow recovery in the post-crisis global economy and the national default.

<sup>1</sup> Craciun, L., *Viitorul si noua fata a economiei*, Theoretical and Applied Economics, Economic Publishing, Bucharest, 2012, pp. 65-72

For this option also pleaded this target capacity to meet the requirement to consolidate disinflation and to achieve level of inflation consistent with the inflation criterion of the Maastricht Treaty, in accordance with the timetable for euro adoption, and, subsequently, quantitative definition of price stability adopted by the ECB. At the same time, the option on the inflation target for 2011 reflected the central bank's concern for establishing realistic goals, achieving them being essential to the credibility of the central bank and thus the effective anchoring of inflation expectations in the medium term.<sup>1</sup> In this context, maintaining a prudent approach to the inflation target reduction stepping for 2011 was justified by the risks and uncertainties related to the magnitude of the direct inflationary effects that will continue to be exercised by factors beyond the reach of the bank, the most important being: adjustment of administered prices, resumption of economic convergence, including convergence of price levels, after the synchronized economic downturn, maintaining asymmetric nominal rigidities<sup>2</sup>.

Inflation targeting for 2007-2009 proved correct and effective. Central bank should continue its efforts to reduce inflation to a realistic pace, it is necessary to apply "direct inflation targeting", it must align with monetary policy of the euro area to avoid sudden shocks to changes of monetary policy, and the exchange rate policy must allow real exchange rate of the Romanian leu. The Central Bank must complete adjustment acquis and procedures for banking supervision and strengthening the independence of the central bank must develop the banking and financial system as a whole to increase the rationality of resource allocation and ensure appropriate monetary policy transmission channels, need to modernize the payments system and connect it to the European T.A.R.G.E.T.<sup>3</sup>.

The implementation of the inflation targeting strategy was not easy either before the financial crisis and fiscal dominance, massive capital inflows, net debtor to the banking system and the central bank of the monetary policy transmission mechanism were combined. Financial crisis has increased the monetary and exchange rate volatility and tends to amplify the economic slowdown. On the one hand, the reduction of external financing and the existence of large external imbalances triggered the depreciation of the leu, which feeds inflation and requires a relatively high interest rate.

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<sup>1</sup> Molanescu, A., G., Aceleanu, M., I., *Consequences of the Budget Deficit in the Current Crisis in Romania. Implications on the Labor Market*, Theoretical and Applied Economics, Economic Publishing, Bucharest, 2011, pp. 59-74

<sup>2</sup> [www.am.ro](http://www.am.ro)

<sup>3</sup> [www.ziare.com](http://www.ziare.com)

A successful policy that includes a credible disinflation trajectory can be implemented provided the Romanian financial system to continue the modernization and structural reforms to become more profound. In the financial sector, this implies additional measures to reform the banking sector and the establishment of corporate financial discipline (especially arrears should be reduced in real terms).

Effective monetary policy leading to disinflation requires not only a good financial system and good coordination between fiscal and monetary policy, but also between exchange rate policy and monetary policy.

In order to strengthen the credibility and autonomy of central bank, quasi-fiscal deficits should significantly be reduced (debt contracted by NGOs but guaranteed by the State), in particular, a solution to the crisis of the social system has to be found, in a similar way, the public utilities must improve their efficiency in economic terms.

One of the medium term priority of Romania's central bank and the government is to reverse the credit relationship between the central bank (BNR) and commercial banks, which means getting a structure specific to all developed countries, the central bank's net creditor position banking sector and not vice versa. This would be possible if the central bank would waive the increase in deposits from banks and then would try to reduce them gradually. The gradual reduction would be accompanied by an increase in money supply that could be of economic inflation if output growth is not high enough and the speed of money supply movement does not decrease.

An important feature of inflation targeting strategy represents its transparency. This requires communication to the public of the objectives and policy decisions (including the rationale which led) and projected evolution of inflation and the risks and uncertainties associated with it. Transparent public communication facilitates performance evaluation of monetary policy, thereby increasing the central bank's responsibility.

The annual inflation rate fell below the central target of 3 percent  $\pm$  1pp for 2012 (see Figure 2):

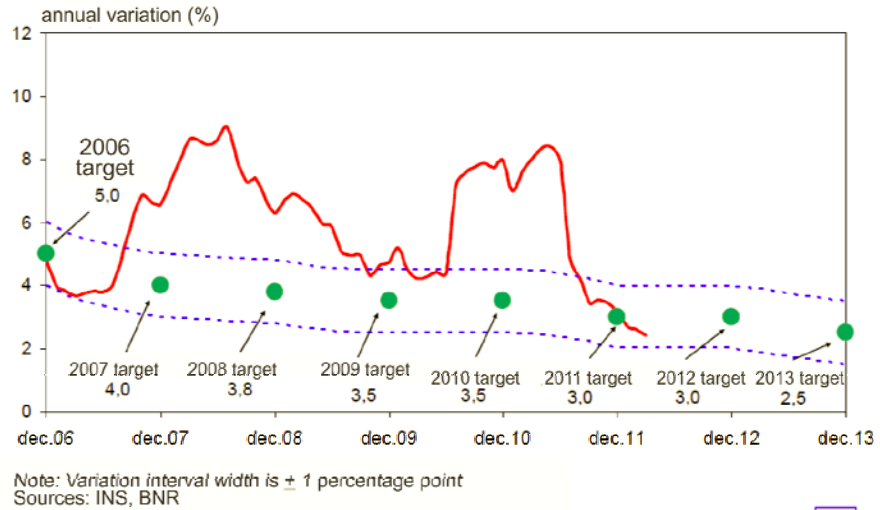
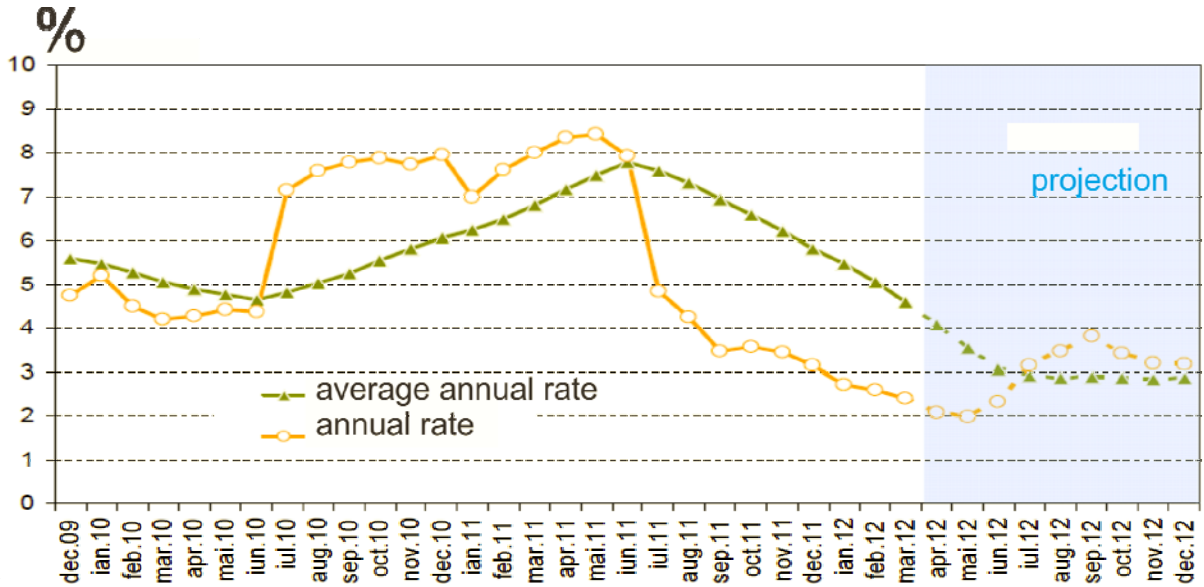


Figure 2. Annual inflation targeting variation

Despite unfavorable base effect, the average annual inflation forecast was set at about 3 percent in the second half (see Figure 3).



Source: [www.insse.ro](http://www.insse.ro)

Figure 3. Projected average annual inflation rate

In conclusion, the economic situation in Romania is currently benefiting from a favorable environment: economic growth in an environment where inflation decreases rapidly. It is true that the future growth will depend on continued structural reforms, reducing inefficiency in the economy and fiscal deficits. There are favorable prerequisites for attracting foreign investment, in this context, to support effectiveness of management of monetary policy, exchange rate should be flexible and direct central bank interventions in the foreign exchange market should be low as possible. However, this requires the gradual liberalization of the capital account. Special attention should be paid to capital inflows and short-term loans in foreign currency, especially in the non-exportable.

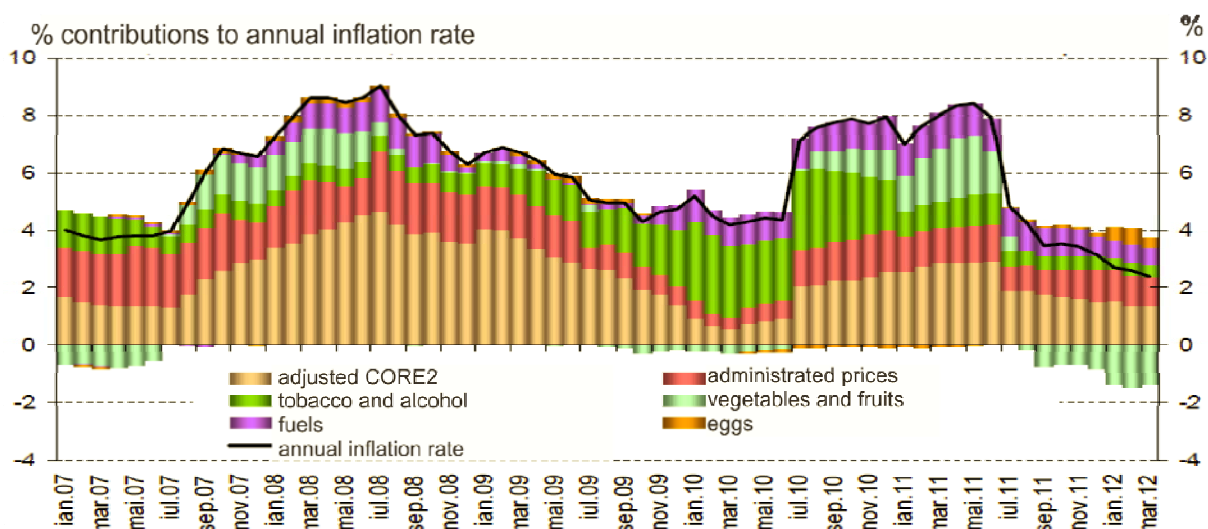
To support economic development in a general sense, the central bank needs to accelerate the modernization of both the banking system and the management of its own monetary policy. It should be based more on general market practices with strengthened independence and autonomy.<sup>1</sup>

Determinants of inflation in the first quarter of 2012 were: persistent demand shortfall; manifestation of favorable base effects associated with increasing food and fuel prices in the first part of 2011, keeping consumer inflation expectations to decline, although less pronounced, the upward trend in international oil prices, moderate depreciation of the leu against the euro and against the U.S. dollar, the negative influence exerted on the fruit and vegetables prices due to adverse weather conditions in the first months of the year.

Disinflation was supported by most CPI components (see Figure 4):

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<sup>1</sup> Vasile, V., Balan, M., *Impact Of Greenhouse Effect Gases On Climatic Changes. Measurement Indicators And Forecast Models*, articol publicat in Faculty of Sciences, "1 Decembrie 1918" University, Alba Iulia, Annales Universitatis Apulensis Series Oeconomica



Source: [www.insse.ro](http://www.insse.ro)

**Figure 4. Contributions to annual inflation rate**

The annual inflation rate in March 2012 compared to February 2012 remained unchanged in both the EU (2.9%) and the euro area (2.7%), according to data from the European Statistical Office (Eurostat).

In March 2012, the countries with the highest inflation rate were: Hungary (5.5%), Estonia (4.7%) and Czech Republic (4.2%). At the opposite pole Sweden (1.1%), Greece (1.4%) and Bulgaria (1.7%). Romania is both below the EU average and below average euro area inflation rate of 2.5%, according to Eurostat.

Compared to February 2012, annual inflation fell in 14 member states (including Romania), remained stable in four states and has grown in eight countries. However, Romania is still on top in the EU when it comes to the average increase in prices in the past 12 months, with an advance of 4.6%, a larger increase was recorded only by Estonia (4, 9%). At the opposite pole Sweden (1.3%) and Ireland (1.6%).

According to data from the National Statistics Institute (INS), the annual inflation rate fell to 2.4% in March 2012 from 2.59% rate recorded in February 2012, registering a new record low of the last 23 years. In March, prices rose by



0.42% from the previous month, amid rising food by 0.64%, non-food products by 0.32 percent, and the rise in prices for services 0.20%<sup>1</sup>.

Annual CPI inflation rates projected for late 2012 and 2013 remained unchanged from the previous round: 3.2 percent and 3.0 percent respectively (see table 1).

Table 1.

	T3 201 1	T4 201 1	T1 201 2	T2 201 2	T3 201 2	T4 201 2	T1 201 3	T2 201 3	T3 201 3	T4 201 3	T1 201 4
<b>Target</b>		3,0				3,0				2,5	
<b>Effective / Projected *</b> (%)	3,5	3,1	2,4	2,3	3,8	3,2	2,7	3,0	2,7	3,0	3,0
<b>Uncertainty range</b> (%)	-	-	-	±0,5	±1,0	±1,4	±1,7	±1,8	±2,0	±2,1	±2,2

Sursa: [www.insse.ro](http://www.insse.ro)

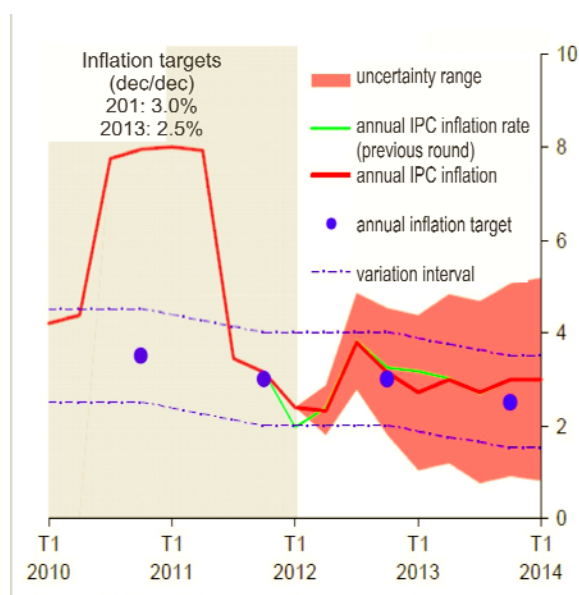
However, CPI inflation projection remains within  $\pm 1$  percent around the central targets throughout the period (see Figure 5).

It is noted that inflation in Romania due to both lack of competition and intermediaries and the demand is still based on income tax evasion and undeclared work affects to some extent the economy.

Next years forecast shows that inflation will remain on a downward trend, a level of 2.8% to end the year 2013 with an annual average of 2.9 percentage points. Since the inflation target of 2.5% during 2013, a projected 2.8% inflation would fall within the margin of plus / minus 1 percentage point which would meet their target.

For industrial prices a decrease by 1.75% is forecasted for the current year, namely 5.2%. In subsequent years forecast industrial production price at the end of 4% in 2013, 3.2% in 2014 and 3% for 2015.

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



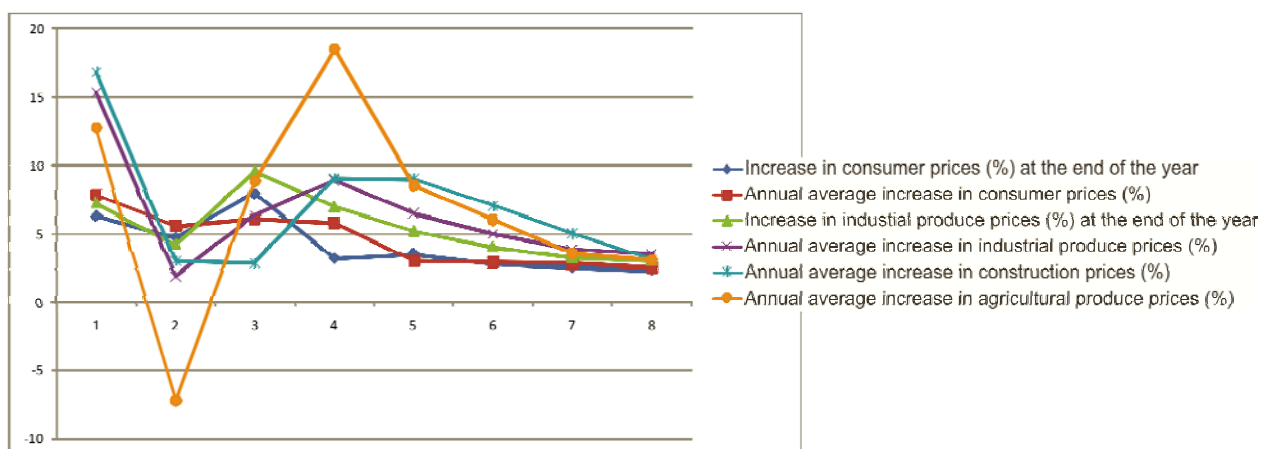
Source: [www.insse.ro](http://www.insse.ro)

**Figure 5. Inflation targeting for 2013**

The prices of the main agricultural produce is a downward trajectory like all the others, with a significant decrease of almost 10 percentage points from last year to 8.5%, and in subsequent years, the National Forecast Commission projects for the future year a decrease 2.5 percentage points for 2013. Year 2014 and 2015 are predicted to a price increase of 3.5%, respectively 3% of Agricultural produce prices.

Construction cost increase is expected this year to 9 percentage points, and for subsequent years to 7 percentage points in 2013, 5 percentage points in 2014 and 3 percentage points in 2015. These optimistic forecasts shall encourage future investment in construction for lower prices.

2014 follows the previous years are forecasted inflation rate at the end of the fourth quarter of 2.5% to 0.3% lower than last year's forecast, while inflation in 2015, according to the National Commission for Prognosis, is going to be 0.2% lower than the previous year, namely 2.3%, which is encouraging for a healthy economy that had to go through a negative trend in inflation caused by the economic crisis that has destabilized the major sectors of the economy (see Figure 6).



Source: [www.cnp.ro](http://www.cnp.ro)

Figure 6. Inflation rates at national level

### 3. Conclusions

Inflation targeting strategy in Romania features: commit to price stability as the main objective of monetary policy and placing on second place the other traditional objects (such as economic growth, external competitiveness, lower unemployment), transparency of the monetary policy strategy through public communication of all objectives and decisions taken for monetary policy, the central bank increased accountability for achieving the inflation objective, timely provision of complete information on the relevant variables for the four macro blocks (real, monetary, fiscal, external).

The inflation targeting regime should focus on aspects of domestic financial environment and to respond better to shocks in the national economy. Money-inflation relationship is not the defining element of the strategy of inflation targeting, but it is a favorable monetary instruments to determine the monetary authority choices.

Potential causes of inflation deviating from the projected trajectory are developments of euro area economy and investors' perceptions of economic circumstances, as well as regional and/or global and geopolitical tensions in the Middle East with effects on oil prices.

Inflation targeting involves a high degree of independence of the central bank in conducting monetary policy. At an institutional level, this implies the existence of a law to confirm the independence by the government and the central bank acquires exclusive full implementation of monetary policy.

Under inflation targeting, central bank monetary policy tools to handle direct limit inflation in the medium term. In this context, inflation is the overriding goal of monetary policy. Like other banks that have adopted inflation targeting policy, the European Central Bank has an explicit inflation target should be to keep inflation as close to the target as possible.

In conclusion inflation targeting in Romania represents the monetary policy strategy that involves setting a target for the inflation rate over a certain period of time, the target to be achieved by monetary policy measures taken to ensure price stability.

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## **SUSTAINABLE DEVELOPMENT AND THE ENVIRONMENT**

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***Abstract:***

*As a consequence of general economic growth, progress in all areas of economic and social life, the human being came today to have the technical means improved so that consuming huge quantities of renewable and non-renewable natural resources, exploiting the ever increasing and changing the environmental factors nature at a rapid rate. The human being leaves free way harshness of economic disequilibrium with negative effects on quality of life, but also on the evolution of the biosphere, but not require adequate control over his actions and aware.*

*It was created the image that the human being endowed with power and intelligence to dominate modern technology and then to transform nature, placing it so entirely at his service.*

*The modern technology estranges the human being from nature to such an extent that he acts more and more against it, unfortunately contributing to degradation. Thus, nature can be irreversibly affected.*

**Keywords:** sustainable development, environment, environmental protection, technology, ecology.

As a consequence of general economic growth, progress in all areas of economic and social life, the man came today to have the technical means improved so that consuming huge quantities of renewable and non-renewable natural resources, exploiting the ever increasing and changing environmental factors nature at a rapid pace. Man leaves sway harshness of economic imbalances, with negative effects on quality of life, but also on the evolution of the biosphere, but not require adequate control over his actions and aware.

Among scientists, the politicians, the general population, gradually formed the belief that under modern civilization, economic activity requires not only concern the volume and quality of material goods and services by providing a commonly high economic efficiency, but also a growing attention to environmental protection, which is provided basic material growth.

Given a strongly degraded and polluted environment becomes increasingly obvious that the standard of living, even if it is very high, loses all meaning, no longer account the negative impact of the environment on the evolution of the natural phenomena and biological perspective and thereby economic growth itself.

In such circumstances appears increasingly necessary to develop and adopt broad economic policy perspective to find a green strategy materialized in place specific actions to protect the environment, integrated economic development programs, and economic mechanisms social-administration of these programs and in establishing appropriate legislative and institutional framework.

Study of these phenomena becomes necessary that combine harmoniously the basics of the economy with environmental sphere.

The most common definition of sustainable development is undoubtedly that given by the World Commission on Environment and Development (WCED) in its report "Our Common Future", also known as the Brundtland Report: "Sustainable development is development which aims to meet the needs of the present without compromising the ability of future generations to meet their own needs".

Sustainable development aims and tries to find a stable theoretical framework for decision making in any situation in which man finds a report type - environment, be it the environment, the economic environment or social environment.

Although sustainable development was initially meant to be a solution to the ecological crisis caused by intense industrial exploitation of resources and the continued degradation of the environment and seek primarily preservation of environmental quality, now expanded concept of quality of life in its complexity and in economic and socially. The object of sustainable development is currently concern for justice and equity between countries, not only between generations.

Environmental economics, as defined, is a discipline border between ecology and economics that studies the distribution of the world's natural resources and their use consistent with maintaining the ecological balance in nature.<sup>1</sup>

Environmental Economics aims to combine economic and social development with permanent protection of the environment.

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<sup>1</sup> Iordache, V., Ardelean, F., *Ecology and environment*, Matrix Rom Publishing House, Bucharest, 2007, p.32



Environmental economics must stand against environmentalism narrow, conservative, economic development necessary to preclude the need of contemporary society.

Environmental Economics sets priorities the economic, environmental and so human interests and also the nature integrity coexists harmoniously.

### **Natural resources, environment and economic development**

The study of natural resources essential component environment, are susceptible to a thorough analysis from many points of view, such as growth requirements, the potential environmental factors in perspective, scientific and technological and demographic trends that influence demand and extraction rate, and substitution rate, reducing specific consumption etc.

Energy used by humans in various forms, element for all economic activity, form one of the more important factors of human material civilization. Another essential element that forms the material structure of the economy, however, is the raw materials, minerals and organic. All man-made objects in the production process to meet the different categories of necessities - the physiological, social and spiritual - and everywhere around us as raw material origin subject to processing.

To the man regarded as a complex with determinations biophysical, biological and social, psychological and socio-historic concrete - are many necessities to satisfy that there are many obstacles caused by the environment. In this case, the environment is given a broad meaning, including in this category so both the natural environment and on the artificial (economic, social, cultural and aesthetic), which carries out its entire business man, more rich and more complex. Man defined his versatility with his needs is considered as a cybernetic system. For preserving and developing this system, man carries his whole activity based on information received and responses to variations and uncertainties coming from the environment.

Through the information received about the condition, behavior and evolution of the environment, man seeks to provide answers to a number of issues concerning the selection and ordering needs, organizing his whole individual and group activities according to certain priorities, taking into account available resources and the possibility create these material resources, professional, organizational, political and ideological needs. This means that the possibilities to

create them are more efficient and diversified as the man through economic and social development, the issue of direct domination of nature.

Both at the individual and at the social groups and classes in different countries are a variety of types and structures needs, as well as significant differences in the levels of their satisfaction.

Therefore, it is necessary that things should be carefully analyzed in order to draw reliable conclusions untrue.

Degree of economic development leaves its mark decisively on the level and structure of desires and necessities practically revealed by actual demand. Necessities, but also to satisfy their desire is original engine that triggers economic development. Between nations and social groups heavy, become the most dynamic precisely those that are driven by strong desires to cross new steps to achieve some needs that increase the amount and diversity.

So we can get consistent explanation of mobility, level and structure of different types of necessities only when they are placed in close correlation with economic development studies. Thus, in a society less developed economically, the needs are less diversified, less volatile, and their share of the principal forms of bio-physiological survival. But as economic development increases, and the volume and variety of products and services increases, human needs are not so closely related bio-physiological life. They gradually pass to the social, scientific, cultural, aesthetic interest.

Besides economic development, another factor that leaves its mark on the structure, volume and directions of development of needs is the nature of production and social relations, class structure, level of culture, representations and conceptions of people on their needs, reflected in the individual and collective aspirations. Indeed, looking more closely physiognomy of society in terms of trends in the structure and volume of needs will emerge their relation to economic and social mechanisms, which all are dominated and enslaved to maximize profit, business processes are intensified to maximum by applying scientific discoveries and technology to increase profits.

Basically this means a high consumption of renewable and non-renewable natural resources and often beyond the power of nature to maintain the balance of ecosystems vital to the future development of the biological system of the human first.

Analysis existence of some differences are still large between countries and social groups in the structure and volume of needs, were the basis for proposals to

develop standards for the minimum and the maximum average necessities. To achieve levels required by these standards is proposed to form even economic policy objectives not only in the nation but also of UN bodies. Of course, to achieve the objective of a minimum level of satisfaction of needs in many developing countries, the domestic demand, the introduction of economic and social structures to promote, on the one hand, increasing economic growth, on the other hand, achieving a fair allocation policies.

### **Relationship between economic development and environment**

Contrast to previous eras when the damage was relatively small economic activities and the nature has enough forces to restore ecological balance in the current situation suddenly changed. Global ecological crisis, which manifests itself in various forms, has become a reality.

A central environmental issue, particularly in developing countries is polluted drinking water. Almost one billion people lack access to clean water around the globe. Over three million people - mostly children - die every year from drinking contaminated water. Water purification requires huge resources, but this is justified in all countries take steps to build water purification systems.

The transition to a market economy, a great responsibility lies with private sector companies.

Environmental damage from the management of the former USSR transformed, according to the findings of experts, agricultural land in a true wilderness. Until the newly formed states will be able to provide people with products and until they become real competitors in agriculture need to pass many years.

Application of pesticides in Moldova was 13 times more intense than the other territories of the former USSR DDT (dichlorodiphenyltrichloroethane-diphenyl-trichloroethane) was banned after being poisoned over 12 million hectares of arable land.

Expenses for purifying soil impregnated with herbicides and settlement of claims brought by industrial pollution are enormous. Earth is threatened by erosion and other hazards facing agriculture and other issues. Following intensive use and misuse of land and other natural resources in certain areas has created a serious environmental situation, significantly decreased agricultural production stability.

The use of natural resources combines a set of transformations and changes in natural resources, characterized by cycles of resources. Distort economic activity

fund essential course of natural cycles and ecological crises cause conflict “man and nature”.

In order to stop the environmental deterioration through intense economic activity we need reworking cardinal principles of organization of the farm household.

Expand production in danger of effect „gases” and ultimately our planet overheating, which could have unpredictable ecological consequences. In developed countries, particularly the U.S., allocations for environmental protection increase considerably. Also in the U.S., many eminent scientists have found that if you increase the temperature on Earth, this would be very insignificant in the next hundred years. In June 1992, the International Ecological Forum in Rio de Janeiro was agreed that in case of danger will increase global temperature increase will be taken serious.

In other countries, the air environmental pollution has reached to a threatening level. Because of the fact that hazards move across the globe, the air environmental pollution has a planetary character.<sup>1</sup>

Basic role in air pollution is exhaust from road transport, power plants, industrial enterprises, etc. Auto transport backs 60% of the total volume of pollutants, industry - 17% energy system - 14% waste combustion - 9%. Specific discharges as a result of tons of conventional fuel burning are: carbon monoxide - 395 kg, nitrogen oxide - 20 kg, oil - 34 kg, aldehydes and organic acids - 1.4 kg.

Besides directly affecting human health, environmental hazards come in, and then the agricultural products they make to achieve unchallenged global market, which is very important for agriculture in general.

In cities, road transport is the main factor of toxic discharges into the atmosphere, including those of cancer.

When operating a motor vehicle in steady state, the content of impurities in the exhaust gas is lower than the operating mode of the engine idling, starting and braking regime is characteristic for road transport in the urban cycle operation. Content of harmful substances increases in vehicle operation with a satisfactory adjustment of the fuel system and ignition of the fuel mixture. Every day, 1,000 cars carburetor type engines eliminates about three tons of carbon monoxide, 200-400 kg of other compounds from incomplete combustion of gasoline, 50-150 kg of nitrogen oxide.

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<sup>1</sup> Ciobotaru, V., Socolescu, A.M., *Pollution and environment*, Economic Publishing House, 2009, p.49

Exhaust gases from road transport causes many diseases, such as allergies, upper respiratory mule, angina, tuberculosis, cancer etc.

To reduce the exhaust of harmful substances and maintaining allowable concentration limit established by law, the following methods are used:

1. Using gaseous fuel (H<sub>2</sub>, CH<sub>4</sub> etc.).
2. Combined fuel use.
3. Improved intake tract petrol injection and obtaining necessary fuel mixture.
4. Improving combustion processes (antechamber-flame).
5. Catalytic purification of exhaust gases.

More effective is the combination of catalytic purification with one of the above mentioned methods, excluding hydrogen combustion.

Equipment is outdated carburetors gas purifiers (in cars with external mixture formation systems) and not injection systems.

An effective reduction of harmful content in the exhaust gas components is achieved by using oxidation catalysts for purifying CO, CHX additional intake air to the exhaust tract. But this requires the presence of additional facilities and an air pumping and other combustion installations remained. Reduction of the exhaust gas can be made also through complex catalysts.

In countries like USA, France, Japan successes were achieved in the development of purifiers' gas car. In 1970, the U.S. adopted the clean air law, and in 1975 they set some strict rules for disposal of harmful substances into the atmosphere by petrol engines.

Increased research to develop and implement gas purifiers served in several countries adopting legislation on strict rules on toxic substances contained in exhaust gases from road transport.

There are used advanced technologies to produce catalysts by thermal decomposition method different metal compounds, but this method requires high energy costs and the initial cost is higher salts.

Considering that a number of cars is constantly increasing worldwide, research is needed in developing complex catalyst exhaust gas purification using ceramic honeycomb.

But the restriction to such research is insufficient for a practical solution to this problem. It is necessary to take a number of steps further and put them in practice:

1. Drafting of legislation by ensuring ecological cleansing vehicles, this adding and requirements to limit allowable concentration of harmful substances in the exhaust gases from motor vehicles not only in the countries of Western Europe.
2. Switching to non-ethylated gasoline.
3. Creation of the Diagnostic and branches of road transport in order to check the rules state standards.
4. Ensure control of all cars brought into the country in accordance with the requirements of environmental purity.
5. Organization catalytic gas purifiers produce their installation compulsory automobile in accordance with the regulations.

In some regions, the concentration of chemical elements and impurities in the atmosphere reaches a dangerous level for life. With the “acid rain”, these substances dissolved in the water that falls to the ground water and destroying vegetation infects large territories. With the increasing of number of nuclear power stations also increases the risk substantially air and land accumulation of radioactive substances. An example of this is the fault of the Chernobyl station, which polluted the huge territories Ukraine, Belarus, Moldova, Romania and other countries.

Lately there is danger drilling ozone layer of the planet, which protects living things on Earth from harmful influence of ultraviolet rays. Damage and accumulation of toxic substances in air, water and soil lead to serious illness increase.

All these problems can be solved by stabilizing the balance between human economic activity and the environment namely an optimal balance in the “man-nature”.

Search solutions should be carried out in two directions:

1. First, all global human forces must work together for the purposes of preserving and protecting biological systems still exist, do not allow the destruction of flora and fauna on Earth.
2. Along with protecting biological systems is necessary to develop mechanisms regulating biotech industries.

Mankind must devote more and more income from economic activity to save the life of its main resources - air, water, soil.<sup>1</sup>

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<sup>1</sup> Stefanescu, F. (coord.), *Sustainable development and quality of life*, Oradea University Publishing House, Oradea, 2007, p.23

Economic and technological results achieved over decades in developed countries have created a robust optimism around the production system and modern technology so that the natural link between economic growth and environmental inter-whether it was forgotten, whether created a false image, that generous nature can dismiss all his wealth which man can derive its sole discretion without any systematic. It also created the image that man endowed with power and intelligence to dominate modern technology and then transform nature, thus putting it all into his service.

This attitude was reflected in the environment full of economics, which also fueled so many generational consciousnesses in that direction. But we have seen thus deepening human alienation from nature, a process that had already begun with the advance towards modern civilization, when man has created and developed an artificial environment more comfortable on account of or in opposition to the natural.

The modern technology alienates man from nature to such an extent that he acts more and more against it, unfortunately contributing to degradation. Thus, nature can be irreversibly affected. The essential problem is not only that of finding an explanation of the origin of such attitudes, but also to make a man a good ally and protector of nature, to seek and build economic and social mechanisms needed to work for environmental protection growth conditions.

In terms of the general manner of subjects treated, it would be appreciated that in this area there are three main formats which are generally dominated by the vision of three professions:

a) Ecologists generally based on extensive studies and concrete facts and phenomena, calls for conservation of the natural environment, often by giving the main solution for slowing or stopping the growth.

b) Economists who are based on studies of ecology, but also their own research stress the compatibility between economic growth and environmental conservation, containing not only explanations, but social and economic mechanisms to ensure this compatibility.

c) mathematicians who usually based on assumptions, and concepts to be developed by ecologists or economists, form models to clarify the interrelationships between variables and to draw some trends, including the long term.

But this area requires extensive research, interdisciplinary economists and technologies from different industries and different specialties should work.

### **Conclusions**

The intention is not to present any alternative growth patterns and evolution of the environment, just highlight a few important things, namely:

- There are a number of factors that only a simultaneous existence and they are in close interconnection. According to this principle, everything is connected with every other thing and, as such, producing a pulse or disturbing factor due to their close interconnection takes place sooner or later, a movement or disturbance of other factors or even the entire system;

- Either physical or chemical transformation or by consuming biological in nature nothing is lost, but it only changes the place or form. Therefore, anything from nature, processed or consumed, has to go somewhere. Usually this accumulates large quantities of natural places which they belong and which therefore may produce disturbances and ecosystem factors;

- The nature (physical, chemical and biological) has its laws, which cannot be and must not be violated, but carefully studied, known and understood by the man in all his actions. Human intervention in natural processes must take place not against or disadvantage them, but in close correlation with the processes and laws of nature in order to avoid disturbances or disasters. This does not imply that one should avoid any change of nature. But what is required is to keep these changes within reasonable and acceptable, providing storage and avoiding those processes which, according to the laws of development can lead to sudden, destructive, with large and irreversible damage;

- The natural environment must be integrated into growth models taking into account two essential aspects of his - as a source of natural resources (minerals, biological) needed to carry out business processes and the tank, disposal of socio-economic processes with a limited capacity to absorb self-healing of these residues and environmental factors.

Such evaluation is important not only to meet the requirements of knowledge, but especially to meet the practical requirements become vital for the evolution of modern human society and especially of the future.



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## **THE ROLE OF PUBLIC SERVICES IN THE ERA OF GLOBALIZATION**

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### **Abstract:**

*This article aims to analyze the public service as a fundamental institution of the administrative law and changes in its legal system, with special emphasis on privatization phenomenon in the field of public service.*

*There are critically analyzed weaknesses manifested in the privatization of public services and formulates proposals for drafting laws in the future.*

*The main negative aspects consist in how the State, through its authorities, supervises and controls (it monitors) how an individual, who was transferred to the provision of a public service, provides that public service and complies with the terms privatization assumed by privatisation contract commitments.*

**Keywords:** civil service, state, private, privatization of public service monopoly, monitoring, transfer of responsibility, globalization.

**I.** The term "**globalization**" was first used in the second half of the last century, namely in 1962 and since then, like any concept, it has experienced a continuous evolution "from the authorised jargon to a true cliché that many uses, without knowing the true content of it"<sup>1</sup>. A more elaborate definition is formulated by the International Monetary Fund, according to that **globalization is the increasing international integration of markets, for both goods and services and capital.**<sup>2</sup>

### **II. Generalities on public services.**

Public service is a fundamental institution of administrative law, representing one of the ways in which government implements its work, alongside

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<sup>1</sup> Tudor Frunzeti - "Globalization security", Military Publishing House, Bucharest, 2006, p 41

<sup>2</sup> Ibidem, p. 13

making law sense of the *lato sensu* term in execution. In fact, as recorded the doctrine<sup>1</sup>, long time the administrative law has been defined as a "right of public services", which in turn always and throughout means **the activity that state or the private authorized by the state are doing to meet the social needs of public interest**. Essential in determining the legal status of public services are, in our view, three elements:

- a) **who** performs it;
- b) **the purpose** of that provision;
- c) **the principles** that governs it.

**A) Who is providing it.** Public service can be provided by two groups of law subjects :

**a) of state, by its authorities, in that regard being found services** that can be provided only by the state, are its monopoly, such as diplomatic and consular services, defense, justice, enforcement penalties<sup>2</sup>.

- **services provided either by the state or by individuals** who have received legal permission to perform, such as education, social, cultural, etc..

If we were to determine which is **the rule** and which is **exception**, between the two types of services, we consider that the **rule**, in terms of their scope, of the representation in the public services, represents **the second category**.

**B) The purpose of the provision of public services is represented by the satisfaction of social needs of public interest.** The problem is related to that French doctrine calls "public administration missions<sup>3</sup>" and it is important to note that not every need that is manifested in terms of social life becomes automatically public social need. For this to happen it is necessary **that social need to be objectively determined, to be valued, measured in terms of political and transformed into a rule of law**, representing **public administration tasks**.

**C) The principles** governing the investigation of a civil service, whose scope varies from one author to another<sup>4</sup>. As far as we are concerned, we consider that at the base of exercising public services are the following principles:

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<sup>1</sup> **Antonie Iorgovan** – *Administrative Law Treaty*, All Beck Publishing House, 2005, Vol. II, p. 178-188.

<sup>2</sup> Although there are countries where they can be provided also by individuals, so-called "private prisons" in England

<sup>3</sup> „*Les missions de l'administration*”. See, *exempli gratia*.

<sup>4</sup> Cu privire la această problema a se vedea **Dana Apostol Tofan**- *Drept administrativ*, ed. aIIa, Ed. All Beck, Buc. 2008, p. 8-9.

- **equality in front of public service**, which is a recovery in terms of administrative law, of constitutional principle, of equality before the law and public authorities, without any privilege or discrimination, enshrined in Art. 16 (1) of the Basic Law. Based on this principle, all public service beneficiaries are entitled to equal treatment if the situation is the same.

- **continuity of public service**, which derives from the reality that social needs which it must satisfy do not know any interruption, so the way itself in which there are satisfied should be similar as running in time. On this principle was based banning strike for civil servants involved in providing various citizen needs.

- governing public law rules, whether that public service is provided by a public body or by an individual authorized by it.

In French doctrine, to these principles are added **the adaptability**, which is grafted on the reality that **social needs are constantly changing, transforming and public administration must adapt to the changes in their content.**

### **III. About privatization of public services.**

As we shown in the first section of this material, the public service may be offered by **the state** and by **the individual**, which are the only ones who are committed, or do so concomitant with the state. The phenomenon of **privatization of public services** means the transfer to privates, to satisfy different categories of social needs. The reason behind it lies mainly in the fact that the state is a bad administrator and then, realizing this deficiency and wanting that it to be removed, appeals on individuals which should streamline procedures, means and results. By here, the aspects of philosophy and institution are logical, and we share them.

Which exceeds the limits of this vision and who we cannot agree are **exaggerations in the procedure and lack of responsibility**, first by state, in the design, implementation and monitoring of the privatization process in general, and of privatization of public services, in particular.

**The criticisms** that we bring to the way of understanding and implementing of privatization in general and in relation to public services in particular are the following:

a) the transformation of privatization from a necessity into an end in itself. We say this because, in our opinion, should be privatized first non-functional services, on which the state has manifestly inefficient.

Abandoning such a vision, we see that, referring first to Romania the privatization process has not complied with such finality, often the result being the bankruptcy or dissolution of such work or service.

It is true that, by the Constitution the Romanian's economy is proclaimed to be a market economy,<sup>1</sup> but this does not mean the disappearance of the state from the provision of the public service.

As we have expressed on other occasions, there are countries such as France, where the state is a serious competition to individualism, striving to retain control or monopoly in the provision of public services. There were implemented over time, also different legal procedures by which the state acts, and it is about the so-called "*quality contracts*" or "*quality commitment*", whereby the state assumes certain benefits to individuals so that they prefer the services provided by state instead of those provided by the individuals<sup>2</sup>.

Such contracts are experienced in public services such as France Telecom, Gaz de France, etc. Chemin de fer.

We appreciate the positive experience that should inspire also the activity of public authorities in Romania, imposing a genuine debate on this issue also in our country, in the way to generate specific and beneficial practices for Romanian realities.

**b) lack of monitoring of how the provider complies with the terms of the privatization contract.** The essence of privatization is that the government, when transfers to the private the provision of a public service, is obliged to follow the way in which the individual carries on the activity.

Is excluded the attitude of the state is ruled not to follow and control by the specific means of "administrative police" the activity that the individual is carrying on as such.

Here comes out the combination of the rules of public law and private law. The first is reflected in the right of security and protection, form of administrative police law that state exercises over how an individual behaves as a public service provider.

c) lack of transparency in the privatization process itself, but also the actual performance of the work subject to privatization.

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<sup>1</sup> See art. 135 (1) from **Romanian Constitution**, republished

<sup>2</sup> *Exempli-gratia*, there are public transport services, on railway, (chemin de fer francais), in which state offers very good conditions for travelling materialized not only in the small price of the ticket, but also in its partially return to integral return, in the version where reaching destination take place over planned periods

One example is relevant to how essential public services were privatized in Bucharest, partner services such as water (RADET), electricity (ENEL), by concluding privatisation acts in which was provided **the prohibition to make public**, which in our opinion can not be accepted. The privatization contracts are legal documents that have a hybrid of public and private law, public law regime dimension not only prohibited but even requires that they must be made public.

It is unacceptable that the privatization contract to specify the prohibition of making public.

It is true that the essence of the legal regime in private law, is that they are **the law of parties**, which are sovereign to decide their clauses, obviously under the law, including privacy issues of the contract. But when it comes to a contract covering a public service, it must be - also as the service it concerns - public, except for items that have no relevance to the public and may be confidential<sup>1</sup>.

#### **IV. Conclusions**

It is obvious that perspective we are going to, in present and especially in future, is one where private initiative is dominant but in any case, not encompassing. In the world is a trend of privatization, including the public sphere. Italy experiences, since 1993, privatization solutions in the field of public service.

England, as I said, is practicing private prisons. Authors of employment law are becoming more aggressive in promoting so-called **monistic view of labor law**, which would encompass, in its regulatory and research subject, in addition to employees and civil servants and public officials, the professions and all providing socially useful work. This was a return to the uniqueness of the legal labor argument used to legitimize, in terms of legal status, the totalitarian regime. Specific concepts of that regime was that all those who conduct an activity, work, in *lato sensu* of the term were, *working people*, as an employee, because they obtained certain gains, a salary from this job, all equal between them, not accepting differences affecting the indestructible vision of unity and equality of all people, specific to the political and legal system in question. By this approach is not trying more than a matter of privatization also in the legal status of civil servant, a

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<sup>1</sup>On this problem we have considered contract with RADET for privatisation of public water service, which media reported that no one knew the average number of pages, because it was confidential.

transfer of it from sphere of administrative law, public law branch, to the one of the labor law, branch of private law, a trend which, as us, we vehemently oppose<sup>1</sup>.

The problem of **public function** is closely related to the **public service**, since usually, those working in the public service or public servants are generally subject to general status, represented by *Law no. 188/1999 on the status of civil servants*, with subsequently amended and supplemented, republished<sup>2</sup>, or **civil servants subject to specific legal statutes**. Such a conclusion can be drawn from the contents art. 6 of Law no. 188/1999, which recognizes that specific statutes **may be adopted for civil servants from services of Presidential Administration, Parliament, diplomatic and consular services and other public services provided by law**. We find that the text makes an explicit speech about public services and qualifies those operating within them, as civil servants.

From this perspective, things can not be separated one from the other.

Privatization in the field of public service is a very complex issue, and the experiences that Romania crossed from 1990 to the present are more than eloquent. Take, for example, the privatization of public service education, or education, which is the constitutional origins are in art. 32 of the Constitution, according to which **the education can take place in the state institutions, private and confessional institutions**.

Based on this text, there were adopted after 1990 legislation that allowed the education at all levels, from pre-school, take place both in public state institutions, but also in the private ones<sup>3</sup>.

If in the case of secondary and school education we do not pronounce, as regarding the university education we have arguments to say that it was subject to a fluctuating process, as regulation, unable to face the challenges, which caused and fueled experiences which have seriously and dangerously distant from the requirements of this public service very important for any society, whereof the great master of antiquity Aristotel said that a State which is not concerned about the quality of education does not know its interest, has no future, and it is thus

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<sup>1</sup>About our reactions to such approaches, see **Verginia Vedinas-** *About legal nature of service report of civil servant*, in Romanian Magazine of Private Law no. 5/2010, pp. 190-208; **Verginia Vedinas** –*Civil Servant* –institution of administrative law, in „*Pandectele române*” Magazine, no. 5/2011, pp. 82-95.

<sup>2</sup>Last republication of **Law no. 188/1999** was realized on *Official Gazette no. 365 from 29 of May 2007*.

<sup>3</sup>After 1990, organisation and operation of education of all grades has been regulated by the following regulations, among we mention **Law no. 84/1995**, **Law no. 288/2004**, **Law no. 1/2011**.



condemned to regress, not progress. **Privatization in this field was understood more as a marketing**, meaning that the purpose of abandoning its purpose, was pursued the profit and this despite the fact that the purpose of educational institutions, public or private, shall be and remain providing a higher training and more able to ensure quality, performance and results in the activity that will run the future graduate.

Another example can be taken into account and I already commented it, is **on how were privatized public services essential to society**, so-called **community public services**.

Improper procedures and lack of any involvement in monitoring the contractual terms already so bad, attracted unbearable prices for most of the users and often of dubious quality. In other words, **huge prices, minimum quality**.

As fully appreciates this theme in the literature<sup>1</sup>, globalization offers great insights regarding the progress, through the possibilities and economic exchange markets, through investment and the free movement of persons and capital, through the development of information and technology and industry communication, which however, do not include the significant risks affecting the population. It will affect public services market that has to cope with these challenges, which requires both legislative and institutional measures in individual countries and at European and international levels, enhancing forms of cooperation among states, cohesion of all states that form the European Union, which is given by their participation in achieving the same draft of international society<sup>2</sup>.

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<sup>1</sup> Ana Claudia Moarcas, - *Social policy in the globalization era. Guidelines for a modern system of social protection*, article in **Public Law Magazine**, no. 3/2005, p 38

<sup>2</sup> Ana Maria Groza, *The European Union, unidentified political and legal object yet*, **Public Law Magazine** , no. 2/2008, p.41

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