

# **ROMANIAN ECONOMIC AND BUSINESS REVIEW**

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## THE PROSPECTS OF EU COHESION POLICY AFTER THE ENLARGEMENTS OF 2004 AND 2007

Florin Bonciu\*

### Abstract

*After the enlargements of 2004 and 2007 European Union has confronted with an unprecedented increase of the development disparities. The cohesion policy for the period 2007-2013 concentrates on investments in research-development and innovation, infrastructure, industrial competitiveness, labor training, renewable energy sources and increase of energy efficiency. Under the new circumstances determined by the two enlargements a modernization of the cohesion policy is necessary, especially as regards the implementation mechanisms. Also, the objectives of this policy as well as its contents have to be revised.*

### Keywords

*Cohesion policy, EU enlargement, development disparities, Lisbon Strategy*

After the enlargements of 2004 and 2007 European Union has confronted with an unprecedented increase of the development disparities given the fact that the majority of the new member states has considerably lower levels of development as compared to the EU-15.

Despite this, at present all 27 members of the EU have in view the achievement of the Lisbon Strategy objectives, namely the increase of economic growth and of the number of jobs created. In this respect, the cohesion policy for the period 2007-2013 concentrates on investments in research-development and innovation, infrastructure, industrial competitiveness, labor training, renewable energy sources and increase of energy efficiency.<sup>1</sup>

Although before the two enlargements mentioned above there were a number of negative reactions regarding enlargement from the part of those affected by the “statistic effect”, namely those regions that have become in a relative way more developed than before enlargement and thus they exceeded the

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<sup>1</sup> Growing regions, growing Europe, Fourth Report on Economic and Social Cohesion, European Commission, 2007.

reference level of 75 % of the average EU GDP per capita, nowadays we can find that cohesion policy enjoys a considerable support.

This support is determined by the estimated effects of the cohesion policy which is envisaged to add between 5 to 15 % to the GDP growth of the new member states, as well as to generate about 2 million new jobs during the 2007 – 2013 programming cycle.

This support for the cohesion policy has been reconfirmed in April 2008 at the Conference on the future of cohesion policy that took place in Maribor<sup>1</sup>, Slovenia where the representatives of the EU institutions, the social partners and the representatives of the civil society have strongly supported the principle of solidarity and the cohesion policy as instruments aiming at reducing development disparities and increasing the competitiveness of the European Union as a whole at a global level.

Under the new circumstances determined by the two enlargements a modernization of the cohesion policy is necessary, especially as regards the implementation mechanisms. Also, the objectives of this policy as well as its contents have to be revised.

The results obtained up to now are encouraging given the fact that the rate of economic growth from the less developed regions and states which benefit of assistance by means of the mechanisms of the cohesion policy is higher than the EU average.

For the 2007-2013 programming period there are a number of very serious reasons for the continuation of the cohesion policy: the challenges of globalization, climate changes, the further enlargement of the EU.

These challenges will justify the more so the continuation of the cohesion policy as the various regions and member states of the EU will be affected in diverse ways by these challenges and will have different means to cope with them. The development disparities will remain a priority of the cohesion policy, but the mentioned challenges will generate new demands for the cohesion policy, especially in the regions with an average level of development.

We may say that during the period 2007-2013 the cohesion policy of the EU will add to the objective of reducing the disparities among the regions and economies of the member states the new objective of avoiding the emergence of disparities as compared to other areas of the globe or of avoiding declines as result of climate changes or of demographical phenomena.

One can note already some changes of paradigm in the sense that the reduction of disparities among the less developed regions is dependent on the economic development of the whole European Union within the context of the global economy. According to this new paradigm the focus is on the future

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<sup>1</sup> Conference on the Future of Cohesion Policy for a Cohesive and Competitive EU with Simplified and Effective Policies, Press Release 07.04.2008.

opportunities which can be capitalized by mobilizing the potential not entirely used till now, rather than on the attempt to provide assistance for certain regions for problems these regions had in the past.

In order to provide a proper modernization of the cohesion policy for the next financial cycle (2014-2020) during the period 27 September 2007 – 31 January 2008 a public consultation on the future of cohesion policy has been carried out<sup>1</sup>.

The approach of some problems on a much larger scale (as result of the enlargement of the European Union, but also as result of globalization) requires the simplification and modernization of the implementing mechanisms of the cohesion policy. These reforms will have to stress the bottom up approach and to include to a larger extent strategic prospects.

At the same time, it is necessary to orient more the cohesion policy towards the qualitative aspects of economic growth and to sustainable development, without limitation to the attainment of some macroeconomic indicators such as GDP per capita. The cohesion policy must provide sustainable results and this means the need to define objectives linked to structural factors of competitiveness, aspects related to environment and to social sustainability. The provision of sustainable development will imply also the facilitation of anticipation and of adaptation of regional economies to changes in market conditions by promoting innovation and knowledge.

The reform already proposed for the next period refer to aspects such as:<sup>2</sup>

- the support by community programs only for those initiatives which have as effect “a value added at the level of the European Union”, that means benefits at the level of the whole community;

- the support provided by the European Union should be proportional and flexible. The financial interventions should be accompanied by other instruments such as coordination of policies, use of best practices, use of credits from European Investment Bank, etc,;

- the observance of principle of budget discipline, together with the provision of a sound financial management by using independent audit and implementation of high standards of financial control.

It is recommended that the design of the parameters for the cohesion policy of the European Union for the period 2014-2020 take into account:

- the selection of those intervention that have the greatest impact on economic growth;

- the clear allocation of cohesion policy budget on destinations;

- the increase of the role of the European Bank for Reconstruction and Development and of the European Investment Bank.

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<sup>1</sup> Growing regions, growing Europe: Public consultation on the future of EU Cohesion Policy.

<sup>2</sup> UK Government Response, Commission’s Consultation on the future of Cohesion Policy, Department for Business Enterprise and Regulatory Reform, 30 January 2008.

A characteristic of the cohesion policy for the next period is the taking into account of the global framework in which European Union functions. In this context the cohesion policy should assist regional economies to find their place within the world markets, by participation to global networks and increase of internationalization. This change of accent from the community framework to the world framework in the implementation of cohesion policy is maybe the most notable element of change.

At the same time, for the new member states the cohesion policy may have in the future an even greater role for the increase of the coherence of their sectoral policies, of the quality of public investment, in promoting partnerships and consultations in view of the increase of the quality of public governance, inclusively by integrated political approaches and by a closer public-private partnership in the design and implementation of policies. From this point of view one may say that the cohesion policy represents the central element of the process of European integration<sup>1</sup>.

In the medium and long term the cohesion policy will have to follow the provision of some efficient institutions and of a favorable business environment, thus departing from the simple objective of granting direct assistance.<sup>2</sup>

Cohesion policy will have to determine a better infrastructure for transport and communications, to information networks, to the increase of qualification of labor, to more research and development and innovation activities. By the support provided for the creation or consolidation of these element the cohesion policy may act as a catalyst of development, without becoming a substitute for the market forces.

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<sup>1</sup> Jose Socrates, Address by the Prime Minister of Portugal and President of the European Council, IV Cohesion Forum, Brussels, 28 September, 2007.

<sup>2</sup> Danuta Hubner, Cohesion Policy: Genuinely modern and still reinventing itself, Brussels, 28 September, 2007.

## NEW BORDERS OF VAT AFTER THE ACCESSION TO EU

Budacia Lucian Constantin Gabriel\*

### Abstract

*The accession of Romania to EU involves the obligation to enforce the same rules as the other member states, VAT being a tax which must exist and which must not allow competition disturbance among the economic operators within different member states, as well as non-taxation or double taxation of the same operation in two different member states. The harmonization of VAT within EU has been done gradually. The value added tax (VAT) was established in the Economic European Community in 1970 by means of two “VAT Directives”. Representing the indirect tax with the highest weight in the GDP (Gross Domestic Product), the European Union has established an obligation according to which the member states contribute with a share of the cashed VAT to the EU budget.*

Keywords: *EU, VAT, accession*

### 1. EU regulations regarding VAT

The actions of EU regarding the indirect tax field have as legal grounds articles 90 and 93 of the Treaty for the establishment of EU. The rule governing this treaty is the unanimity one, being grounded, at the same time, on the principle of indirect taxes harmonization, and not their standardization.

The VAT harmonization in EU has been performed in several stages:

- a. VAT implementation in all member states (until 1970)
- b. standardization of the taxation basis for VAT and VAT shares (1977-1993)
- c. passing to a transitory system for VAT, once the unique market is formed and suppression of the border customs (January, 1, 1993)
- d. simplification of the VAT system and cooperation of all member states for decreasing the fiscal fraud

a. The value added tax (VAT) has been implemented in the Economic European Community since 1970 by means of two “VAT Directives”, having as purpose the replacement of different taxes on manufacture and consumption

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enforced by the member states, which represented obstacles for the free circulation of goods, taking into account two main reasons: advantages of VAT related to other indirect taxes and, especially, related to the tax on cascade circuit; transparency of the operations regarding the taxation of imports and taxation exemption of exports performed between member states.

**b.** As it represents the most significant indirect tax in GDP, the European Union has established an obligation for the member states compelling them to contribute with a VAT share to the EU budget. Thus, the following stage has been implemented, respectively the harmonization of the taxation basis for VAT, which means it would be enforced for the same economic transactions in all member states (Directive 77/388/CEE). Such directive has established a harmonization system for VAT and has allowed, at the same time, the settlement of a *Working program intended to fulfill the goal of removing the fiscal borders*, by attempting to harmonize the VAT levels. However, the harmonization has not meant the levels' standardization, but their approach enough to not disturb competition.

**c.** In order to adjust VAT to the requirements of a Sole Market with no borders (01.01.1993), *the 6<sup>th</sup> VAT Directive has been amended*. Thus, Directive 91/111/CEE, passed in 1991 and 1992 stipulated:

- *a transitory regime*, which would be completed by unifying the levels;
- *a definite taxation system* for exchanges between member states, which would replace the transitory regime and would be grounded on the taxation in the member state of origin of the goods delivered and services rendered;

*The transitory VAT system*, in force since January, 1, 1993, has removed fiscal checks on the borders within the Community both for end-consumers and economic agents. By means of the transitory system, the notion of import has been replaced with the notion of inter-community purchase, and the notion of export with the notion of inter-community delivery. This system is characterized by:

- *preservation of the principle of destination* (the passing to the principle of origin is not abandoned and it remains a long term objective of the fiscal harmonization);

- *renouncement to the border fiscal control between member states*;
- *continuation of the efforts to harmonize the VAT levels*;

To such end, the European Community has made repeated proposals to use only two classes of levels, a standard one, ranging between 15% and 25% and a reduced one. The Council of ministers, finances and economy has agreed to keep the minimal standard VAT level to 15% and the member states to take all steps not to exceed such minimum more than 10 percent points when they establish their own standard VAT levels. If in terms of taxation basis, some uniformity has

been reached, in terms of VAT levels, there are noticeable differences; thus, the lowest VAT level (15%) is registered in Luxembourg and Cyprus and the highest (25%) in Denmark and Sweden.

Despite the efforts sustained to harmonize VAT, its regime remains terribly complex for economic agents and it maintains a certain “stiffness” of the domestic market. Keeping different taxation rules, non-uniform enforcement of the community legislation and the insufficient convergence of the VAT levels, has led to a certain malfunction of the system. In this respect, in July 1996, the Commission presented a *Working program to speed the passing from the VAT transitory regime to a common definite system*. The Program intended, in an ambitious way, to approach general principles regarding VAT (taxation level, the notion of excisable person, exemptions, place for VAT levying – the principle of levying at the source).

d. Although the passing to a definite VAT system was planned for the end of 1996, the European Union still operates as a transitory VAT system, the “levying at the source” system not being completely accomplished. The European Union has made progress for VAT’s harmonization, but its management, however, remains complicated, requiring plenty of procedures which need time and money to be completed while fiscal frauds are increasing.

The renouncement to the fiscal control at the member states’ borders, given the principle of VAT payment at the source, does not lead to the removal of the notion of “fiscal borders” in terms of goods and services’ circulation among member states. The goods and services which are transported from a member state to another member state must be “marked” somehow, bearing a different VAT system than the one related to national goods and services. This means significant costs for the enforcement of the fiscal procedures.

## **2. VAT characteristics in the European Union**

The main characteristics of the value added tax in the European Union are as follows<sup>1</sup>:

- ✓ The European system regarding the value added tax has been established and is amended based on the EU directives;
- ✓ It had been planed that until 1970 all the states - members at that date to implement the value added tax in their national fiscal systems;
- ✓ It has been acted to the standardization of the taxation basis and levels since 1977;
- ✓ Some member states have negotiated to obtain VAT exemptions or differential taxation levels for certain regions or territories. Thus, areas such as

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<sup>1</sup> “EUROCONSULTANȚĂ – ghidul firmei” Magazine , no. 3/ March 2007

the Canary Islands, Ceuta and Melilla of Spain, Gibraltar of Great Britain and the Aland Islands of Finland are not under the jurisdiction of the VAT European system and, also, adjustable levying levels have been accepted in Madeira of Portugal;

✓ The standard taxation level is established to a minimum level of 15%, the member states having the possibility to increase such level, but not more than 10 percent points.

✓ Reduced taxation levels, over-reduced levels (below 5%) and zero level are admitted for certain classes of goods and services. The case of the zero level is a characteristic of the 6<sup>th</sup> Directive, its goal being to establish a minimal taxation level, namely 5%. However, in some member states and, especially in the Great Britain, there has been accepted the preservation of the zero level by means of waiver, without the possibility to widen the action range of such level to other goods and services.

✓ The use of different VAT levels in the member states has started from the idea that goods and services could be classified in several classes, taking into account the need for them. Accordingly, the luxury class endorses higher taxation levels and the class of essential goods – lower levels. Although states such as France and Great Britain have supported such theory, practice has proved that it does not have the same validity any longer (for instance, in Great Britain, children apparel falls into the zero level while adults' apparel falls into the 17.5% level).

✓ The rules regarding the implementation of the value added tax on prices, addresses in EU the sale accomplishment. Thus, if the highest part of the sales addresses the end-consumer, prices must include VAT and if deliveries endorse another company, prices must not include VAT.

✓ The value added tax is due as percent and, thus, it is visible in every stage where commercial transaction occurs, becoming a neutral tax related to the number of commercial transactions;

✓ All the EU member states enforce the principle of destination in terms of VAT, namely the deliveries of goods and services from a member state to another member state are VAT free in their origin country and subject to VAT payment in the destination country;

✓ According to the perusals regarding the effects of the value added tax, the following conclusions have been drawn: this tax is advantageous for legal entities because they deduct the VAT afferent to purchases, unlike end-consumers who bear the tax by means of the price paid for the purchased good or service; the rich pay less compared with the poor, the tax acting as a regressive tax; the perusal of how supply and demand act must be performed by taking into account both the tax existence and inexistence, to become, on one hand a fiscal duty for the tax-payer and, on the other hand, a firm source for obtaining public financial results.

### 3. Considerations regarding the VAT levels enforced by the EU member states

The European fiscal policy may not endorse and must not enforce standardization upon the levels of the member states' fiscal systems. The action of the European fiscal policy occurs in the attunement of the national fiscal systems for the member states and those which candidate to accession, based on the common goals established under the concluded treaties.

Taxes on expenses and consumption represent the class of indirect taxes, a significant resource of income for the central administration budget. Passed initially in France in 1954, upon the initiative of M. Lauré, the value added tax, due to its characteristics, has allowed the action of the European fiscal policy, meaning the harmonization of the taxation basis and of the taxation levels.

The significant moments regarding the harmonization of the value added tax (the implementation of this tax in the fiscal systems of all the member states, the harmonization of the taxation basis and of the taxation levels, the VAT transitory system, and the simplification of the VAT system) are grounded on the provisions of the EEC Directives, respectively: Directive 7, 77/388/EEC (Art. 2, 4, 5, 6, 7 regarding the application range and levied persons; Art. 11, taxation basis; Art. 12, VAT levels; Art. 13, 14, 15, VAT-free operations; Art. 17-20, discounts; Art. 24, 25, 26, special regimes, exceptions); Directive 86/560/EEC regarding VAT reimbursement; Commission Resolution no. 98/527/EEC regarding the prevention of the VAT frauds.

The VAT standard levels, reduced levels and over-reduced levels enforced by the EU member states in 2005 were those listed in the table below:

<b>EU member states</b>	<b>Standard levels</b>	<b>Reduced levels</b>	<b>Over-reduced levels</b>
Austria	20	10	-
Belgium	21	6	-
Denmark	25	-	-
Finland	22	8/17	-
France	19,6	5,5	2,1
Germany	16	7	-
Greece	19	9	4,5
Ireland	21	13,5	4,4
Italy	20	10	4
Luxembourg	15	6	3
Great Britain	17,5	5	-
Holland	19	6	-
Portugal	21	5/12	-
Sweden	25	6/12	-

Spain	16	7	4
UE 15	19,81	8,53	3,67
Czech Republic	19	5	-
Cyprus	15	5	-
Estonia	18	5	-
Latvia	18	5	-
Lithuania	18	5/9	-
Malta	18	5	-
Poland	22	7	3
Slovakia	19	-	-
Slovenia	20	8,5	-
Hungary	25	5/15	-
UE 10	19,2	6,77	3
UE 25	19,51	7,65	3,34

The perusal of the data presented above points out the compliance with the requirements stipulated by EU regarding the minimal and maximum limits as regards the standard level.

It is obvious that only Cyprus and Luxembourg enforce the standard VAT level according to the minimal value stipulated by EU (15%), the explanation for such practice being related to the classification of these states as being part of the area of fiscal paradises with low taxation.

In Germany, Great Britain, Spain, Czech Republic, Estonia, Greece, Lithuania, Latvia, Malta, Holland and Slovakia, the standard VAT level is below the average registered upon EU level while in Austria, Belgium, Denmark, Finland, France, Ireland, Italy, Portugal, Sweden, Poland, Slovenia and Hungary, the standard VAT level exceeds the average registered upon EU level.

Although the fiscal harmonization in terms of VAT has been accomplished regarding the taxation basis and the standard taxation level, it can be noticed that only two states – Denmark and Slovakia – do not use reduced VAT levels while states such as France, Greece, Ireland, Italy, Luxembourg, Spain, and Poland enforce both the reduced level and the over-reduced level.

The enforcement of the reduced VAT levels, both in older and new member states endorses the following products and services: essential food, water supply, medicines, medical equipment for disabled persons, person transportation, books, newspapers, magazines, services of composers and writers, social housing, agricultural products, hotel services, sports events, use of sports facilities, social services, services rendered by crematories, medical and dentistry services, waste collection, street cleaning.

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**CULTURAL DIVERSITY IN THE EUROPEAN BUSINESS  
ENVIRONMENT  
EU-US COMPARISON**

Georgiana Cebuc and Lavinia-Cristina Iosif\*

*"Culture is more often a source of conflict than of synergy. Cultural differences are a nuisance at best and often a disaster."* (Geert Hofstede, Emeritus Professor, Maastricht University)

**Abstract**

*When interacting with people from different cultures, it is natural to interpret their actions through your own culture's standards. However, doing so can cause misunderstandings. If you employ or conduct business with people from other countries, you can avoid misunderstandings by recognizing cultural differences, such as communication styles, religious beliefs, power structures, and attitudes toward time and work. Your relationships with people from other cultures are enhanced when you are aware of cultural differences.*

**Keywords**

*Cultural diversity, international business, European business environment,*

For those who work in international business, it is sometimes amazing how different people in other cultures behave. We tend to have a human instinct that 'deep inside' all people are the same - but they are not. Therefore, if we go into another country and make decisions based on how we operate in our own home country - the chances are we'll make some very bad decisions.

One example of cultural differences in business is between the Middle Eastern countries and the Western countries, especially the United States.

When negotiating in Western countries, the objective is to work toward a target of mutual understanding and agreement and 'shake-hands' when that agreement is reached - a cultural signal of the end of negotiations and the start of 'working together'.

In Middle Eastern countries much negotiation takes place leading into the 'agreement', signified by shaking hands. However, the deal is not complete in the

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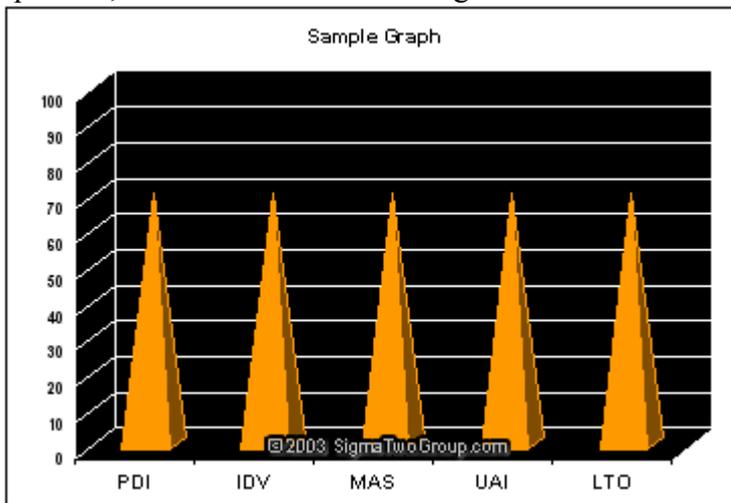
Middle Eastern culture. In fact, it is a cultural sign that 'serious' negotiations are just beginning.

Imagine the problems this creates when each party in a negotiation is operating under diametrically opposed 'rules and conventions.'

This is just one example why it is critical to understand other cultures you may be doing business with - whether on a vacation in a foreign country, or negotiating a multi-million dollar deal for your company.

## 1. Five Important Cultural Dimensions

One approach to cultural differences was devised by Dr. Geert Hofstede, a Dutch researcher who compiled a research database on comparative cultural work preferences during his work with IBM. In his book, *Culture's Consequences*, he identified the following five cultural dimensions



\* Description for each of Hofstede's Dimensions

**Power Distance Index (PDI)** that is the extent to which the less powerful members of organizations and institutions (like the family) accept and expect that power is distributed unequally. This represents inequality (more versus less), but defined from below, not from above. It suggests that a society's level of inequality is endorsed by the followers as much as by the leaders. Power and inequality, of course, are extremely fundamental facts of any society and anybody with some international experience will be aware that 'all societies are unequal, but some are more unequal than others'.

**Table 1: Differences between participative and hierarchical cultures**

<b>Participative Style</b>	<b>Hierarchical Style</b>
Consultative approach	"Top-down" approach
Informality	Formality
All should have equal rights	Power holders are entitled to privileges
Pragmatic organizations centered on task	Pyramidal structure
Independence, initiative	Dependency, obedience
Latent harmony between the powerful and powerless accepted	Latent conflict between the powerful and powerless accepted

There are a wide range of scores for Power Distance obtained for the European Union and North American countries; Denmark is the most participative country with a score of 18, while France is the most hierarchical country with a score of 68. In this case, the USA and Canada fall in the middle of the range with scores of 39 and 40 respectively. These differences translate in corporations in several areas, such as:

- **Corporate Structure:** Hierarchical countries tend to favor top down organizations with more layers of management, while participative countries tend to use matrix structures with cross-functional collaboration and fewer layers of management.

- **Work environment:** In hierarchical countries, work does not get done unless channels are used; managers tend to delegate tasks with clearly defined instructions. In participative countries, getting the work done is more important than using the proper channels, and managers tend to delegate responsibilities with limited instructions; employees are expected to take initiative, report on progress and suggest approaches to problem solving.

- **Decision-making:** In hierarchical countries, managers make decisions that are appropriate to his / her level of authority, with limited consultation of subordinates. In participative countries, managers consult those involved and expect them to participate in the decision-making.

**Individualism (IDV)** on the one side versus its opposite, collectivism, that is the degree to which individuals are inte-grated into groups. On the individualist side we find societies in which the ties between individuals are loose: everyone is expected to look after him/herself and his/her immediate family. On the collectivist side, we find societies in which people from birth onwards are integrated into strong, cohesive in-groups, often extended families (with uncles, aunts and grandparents) which continue protecting them in

exchange for unquestioning loyalty. The word 'collectivism' in this sense has no political meaning: it refers to the group, not to the state. Again, the issue addressed by this dimension is an extremely fundamental one, regarding all societies in the world.

**Table nr. 2 Differences between individualist-oriented and group-oriented cultures**

<b>Group Style</b>	<b>Individual Style</b>
"We" Consciousness	"I" Consciousness
Relatives, in-group take care of individual in exchange for loyalty	Individual takes care of self and immediate family
Interests of the group prevail over individual ones	Self interests come before those of the group
Emotional dependence of individuals on organization	Personal life and professional life are separated
Cooperation and harmony	Competition between individuals
Loyalty prevails over efficiency	Efficiency prevails over loyalty

There are a wide range of scores for Individualism among the European Union and North American countries; the USA is the most individualistic country with a score of 91, while Portugal is the most group-oriented country with a score of 27. These differences translate in corporations in several areas, such as:

- **Compensation:** Pay, bonuses, and raises are based on individual performance in individualistic countries, while they are based on group results in group-oriented countries.
- **Work structure:** In individualistic countries, there is little socializing outside of work, and team members often work in relative isolation from one another. In group-oriented countries, people gravitate spontaneously towards teamwork and much socializing takes place, both at work and outside.
- **Decision making:** In individualistic countries, managers may not tell the group before making a decision, and decisions are made for the good of the individual, even if they do not benefit the group. In group-oriented countries, managers and groups participate in making decisions, and decisions are based on the good of the group rather than the good of the individual.

**Masculinity (MAS)** versus its opposite, femininity, refers to the distribution of roles between the genders which is another fundamental issue for any society to which a range of solutions are found. The IBM studies revealed that (a) women's values differ less among societies than men's values; (b) men's values from one country to another contain a dimension from very assertive and competitive and maximally different from women's values on the one side, to modest and caring and similar to women's values on the other. The assertive pole has been called 'masculine' and the modest, caring pole 'feminine'. The women in feminine countries have the same modest, caring values as the men; in the masculine countries they are somewhat assertive and competitive, but not as much as the men, so that these countries show a gap between men's values and women's values.

This dimension measures the degree to which cultures value tasks and work or relationships and quality of life.

**Table 3: Differences between relationship-oriented and task-oriented cultures**

<b>Relationship-oriented Style</b>	<b>Task-oriented Style</b>
Quality of life has priority over goal achievement	Goal achievement has priority over quality of life
Modesty, solidarity, and helping others are virtues	Assertiveness, competitiveness and ambition are virtues
Small and slow are beautiful	Big and fast are beautiful
Sympathy for the underdog	Admiration for the strong
Sex roles overlap, with men taking caring roles. Strong ambition is unusual among men as well as women. Women are accepted at work without having to dress and behave like men.	At home, biological differences mean different roles for the sexes. Men are expected to achieve, women to care. In some cultures, women are accepted at work if they imitate masculine roles.

There are a wide range of scores for Achievement obtained for the European Union and North American countries; Sweden is the most relationship-oriented country with a score of 5, while Italy is the most task-oriented country with a score of 70. Note the difference between the scores of the USA (62) and Canada (52) in this dimension: Canada is more relationship-oriented than the USA and has implemented several social programs (including health insurance) that are not available in the USA. These differences translate in corporations in several areas, such as:

- **Policies:** In relationship-oriented countries, corporations tend to offer strong employee assistance programs, with policies that help employees balance family and work (for example, flexible time arrangements and maternity / paternity leaves are commonly used). In task-oriented countries, corporations tend to offer little employee assistance and family issues are rarely considered.

- **Work and family:** In task-oriented countries, work is expected to take precedence over family life. Long hours are expected, as well as travel and weekend work. In relationship-oriented countries, family is taken into consideration and is often included in work activities (families attend corporate events like company picnics, etc.).

**Uncertainty Avoidance Index (UAI)** deals with a society's tolerance for uncertainty and ambiguity; it ultimately refers to man's search for Truth. It indicates to what extent a culture programs its members to feel either uncomfortable or comfortable in unstructured situations. Unstructured situations are novel, unknown, surprising, different from usual. Uncertainty avoiding cultures try to minimize the possibility of such situations by strict laws and rules, safety and security measures, and on the philosophical and religious level by a belief in absolute Truth; 'there can only be one Truth and we have it'. People in uncertainty avoiding countries are also more emotional, and motivated by inner nervous energy. The opposite type, uncertainty accepting cultures, are more tolerant of opinions different from what they are used to; they try to have as few rules as possible, and on the philosophical and religious level they are relativist and allow many currents to flow side by side. People within these cultures are more phlegmatic and contemplative, and not expected by their environment to express emotions.

**Table 3: Differences between risk-oriented and structure-oriented cultures**

<b>Risk-oriented Style</b>	<b>Structure-oriented Style</b>
Flexibility is emphasized: rules should fit situations and may be broken	Rules and procedures are specified and should not be broken
Pragmatism, practical principles	Philosophical, normative rules
Risk-taking	Conservative
Relatively tolerant vis-à-vis different or marginal people	Relatively intolerant vis-à-vis different or marginal people

There are a wide range of scores for Certainty obtained for the European Union and North American countries; Denmark is the most risk-oriented country with a score of 23, while Greece is the most structure-oriented country with a score of 112. In this case, the USA and Canada fall in the middle of the range

with scores of 46 and 48 respectively. These differences translate in corporations in several areas, such as:

- **Rules and regulations:** Structure-oriented countries tend to have many policies and procedures and managers expect these rules to be followed in all situations; they seldom encourage risk-taking and tend to have little tolerance for mistakes. Risk-oriented countries tend to have fewer rules and regulations and accept that these rules may be broken to satisfy a customer; taking risks is encouraged, even when it does not succeed, because it yields new learnings.

**Long-Term Orientation (LTO)** versus short-term orientation: this fifth dimension was found in a study among students in 23 countries around the world, using a questionnaire designed by Chinese scholars. It can be said to deal with Virtue regardless of Truth. Values associated with Long Term Orientation are thrift and perseverance; values associated with Short Term Orientation are respect for tradition, fulfilling social obligations, and protecting one's 'face'. Both the positively and the negatively rated values of this dimension are found in the teachings of Confucius, the most influential Chinese philosopher who lived around 500 B.C.; however, the dimension also applies to countries without a Confucian heritage.

*Iron Rule # 1:*

*- In International Business the Seller Is Expected to Adapt to the Buyer.*

*The buyer in an international transaction is in the fortunate position of being able to largely ignore cultural differences. (Unless of course he or she wants to negotiate the best deal possible!)*

*What if you are not involved in exports. Suppose you are traveling abroad to negotiate a joint-venture agreement, an acquisition or a perhaps a strategic alliance? Now who is expected to do the adapting? That is where Iron Rule # 2 comes into play:*

*- In International Business the Visitor Is Expected to Observe Local Customs.*

*Is this just another way of saying, "When in Rome, do as the Romans do?" No. Actually, Gesteland disagrees with that old saw. His advice is not to mimic or copy local behavior. Instead, he advises just to be yourself. But of course 'being yourself' should include being aware of local sensitivities and generally honoring local customs, habits and traditions.*

## **2. Richard Gesteland's Theory – a different approach yet the same outcome**

Coming back to Geert Hofstede's Theory on cultural differences and the way to understand other cultures, Richard Gesteland, a globalization consultant and seminar leader providing international clients with *practical* training in Communicating, Negotiating and Selling Across Cultures, offers a hands-on approach to studying and understanding corporate ethics and behavior in different and challenging environments.

His main ideas and iron rules in dealing with multicultural business environments are: "the seller adapts to the buyer" and "in International Business the Visitor Is Expected to Observe Local Customs".

### **Patterns of Cross-Cultural Business Behavior**

What Gesteland calls Patterns of Cross-Cultural Business Behavior, Geert Hofstede called the Five Important Cultural Dimensions.

In Gesteland's Theory, cultures are different concerning their perception of time, their priority relevance, their way of communicating and the way they relate to formalities. Having said that, the patterns of cross-cultural Business Behavior is essential for any business person wanting to be successful in any international environment.

### **Deal-Focus vs Relationship-Focus**

This is the 'Great Divide' between business cultures. Deal-focused (DF) people are fundamentally task-oriented while relationship-focused folks are more people-oriented. Conflicts arise when deal-focused export marketers try to do business with prospects from relationship-focused markets. Many RF people find DF types pushy, aggressive and offensively blunt. In return DF types often consider their RF counterparts dilatory, vague and inscrutable.

## **Informal vs Formal Cultures**

*DEAL-FOCUSED CULTURES: Nordic and Germanic Europe, Great Britain, North America, Australia and New Zealand, South Africa*

*MODERATELY DEAL FOCUSED: Latin Europe, Eastern Europe, The Mediterranean Region, Hong Kong, Singapore*

*RELATIONSHIP FOCUSED: The Arab World Most of Africa, Latin America, Most of Asia*

*VERY INFORMAL CULTURES Australia, USA*

*MODERATELY INFORMAL Canada, New Zealand, Denmark, Norway*

*MORE FORMAL CULTURES Most of Europe, Mediterranean Region, Arab World, Latin America, Most of Asia*

*VERY MONOCHRONIC BUSINESS CULTURES Nordic and Germanic Europe, North America, Japan*

*MODERATELY MONOCHRONIC Australia/New Zealand, Eastern Europe, Southern Europe, Singapore, Hong Kong, Taiwan, China, South Korea*

*POLYCHRONIC BUSINESS CULTURES The Arab World, Africa, Latin America, South and Southeast Asia,*

*VERY EXPRESSIVE CULTURES The Mediterranean Region Latin Europe Latin America*

*MODERATELY EXPRESSIVE USA and Canada, Australia and New Zealand, Eastern Europe, South Asia*

*RESERVED CULTURES East and Southeast Asia, Nordic and Germanic Europe*

Problems occur when informal business travelers from relatively egalitarian cultures cross paths with more formal counterparts from hierarchical societies. Breezy informality offends high-status people from hierarchical cultures just as the status-consciousness of formal people may offend the egalitarian sensibilities of informal folks.

## **Rigid- Time vs Fluid- Time Cultures**

One group of the world's societies worships the clock and venerates their Filofaxes. The other group is more relaxed about time and scheduling, focusing instead on the people around them.

Conflict arises because some rigid-time visitors regard their fluid-time brothers and sisters as lazy, undisciplined and rude while the latter often regard the former as arrogant martinetts enslaved by arbitrary deadlines.

## **Expressive vs Reserved Cultures**

Expressive people communicate in radically different ways from their more reserved counterparts. This is true whether they are communicating verbally, paraverbally or nonverbally. The confusion that results from these

differences repeatedly spoils our best efforts to market, sell, source, negotiate or manage people across cultures.

Why? Because of course business communication is simply a specialized form of communicating. And the expressive/reserved split creates a communication gap that can be difficult to close.

### **Time in Europe: The North/South Divide**

For international business people the problem is that contrasting conceptions of time and scheduling cause conflicts. Let's look first at Europe, where the meaning of punctuality for instance varies according to whether you are in the northern or southern part of the Continent.

Suppose you are an export marketer scheduled to meet your Hamburg customer at 9 am tomorrow. Knowing how important Pünktlichkeit is to Germans, what time should you arrive at his office in order to be considered punctual? Veterans of the German market agree that 8:55 am would be just about right.

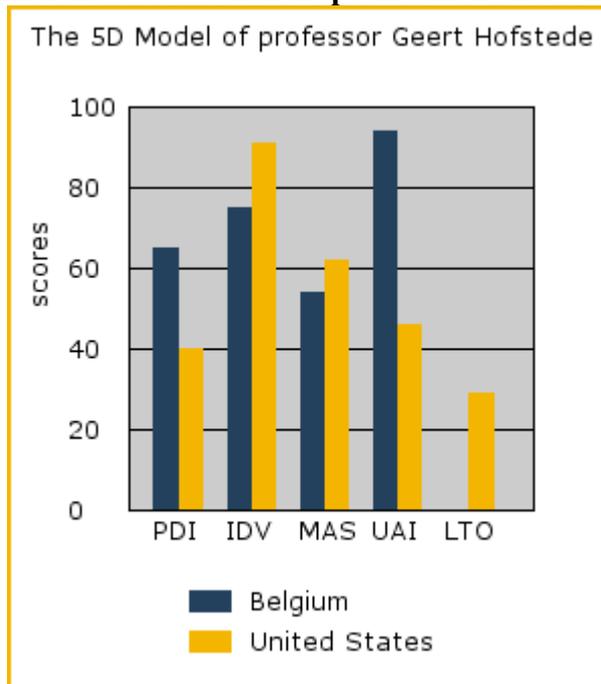
Getting there at nine on the dot would of course be technically acceptable, but arriving five minutes ahead of time shows that you share your customer's obsession with being on time. But the worst thing would be to show up late. Tardiness signals lack of discipline. Some Germans feel if you are ten minutes late for a meeting you may well be ten weeks late with your delivery. Pünktlichkeit and Zuverlässigkeit (reliability) are closely related concepts in this most monochronic of cultures. Let's say your next sales meeting is in Munich. The laid-back Bavarians are more relaxed about time, so you could arrive right on time -possibly even two minutes late - without destroying your chances for a sale. And you can still be confident that your local counterpart will be punctual.

### **Where the Clock Slows Down**

But when you hop across the Alps for your meeting in Milan, the rules change. There your customer or contact may well show up ten minutes or so late without feeling obliged to apologize. And as you travel south down the boot of Italy you find that schedules become even more fluid. In sunny Rome your local counterpart is likely to waltz in half an hour after the agreed time and greet you as though nothing at all is wrong.

This European example with its soupcon of exaggeration is meant to contrast the clock-worshipping, schedule-obsessed, rigid-time business cultures found mostly in temperate latitudes with the more relaxed, fluid-time cultures located primarily in hotter climes. For whatever reason, the closer you get to the equator the slower the clock seems to run.

### 3. Cultural differences between European Union and United States



#### History

The weight and importance of history are very different depending on which side of the Atlantic Ocean you are. On the North American side, history is much shorter: the USA started its existence as a country in 1776, Canada in 1867. By contrast, the history of most European nations goes back much further in time.

This difference translates in the business world in the amount of background information needed to introduce a company or project. For most North Americans, events that took place more than three to five years ago are considered irrelevant to the current situation, and background information on a project is usually limited to the latest developments. By contrast, many Europeans go back much further in time and often start the description of their company or project at the conception stage, no matter how long ago that event took place.

This often results in miscommunication during joint meetings where people from both sides make presentations: North American audiences often find European presentations uninteresting, because they contain much superfluous background information (by North American standards), while European audiences often find that North American presentations lack key background information, making these presentations difficult to follow

## **Language**

In North America, English is the language for business. The only significant exception is Quebec where, while many Quebecers speak both English and French, the exclusive use of English may create some difficulties.

In the European Union, while English is generally accepted as the international language of business, the ability to speak English is not ubiquitous, as the following table indicates:

**Table 4: Percentage of adults who speak English**

Country	Percentage
Germany	44%
Italy	16%
France	31%
Spain	12%
Belgium	34%

Furthermore, the ability to speak English is not uniform across generations. Indeed, the acceptance of English as the international language of business is relatively recent. As a result, you may find that, outside the British Isles, young Europeans speak and understand English much better than their older counterparts. This difference can create tension, particularly when these people come from countries where hierarchy is important (such as France, Italy, and Spain). In some cases, good cases may be rejected because senior decision-makers do not understand them and may not want to acknowledge their lack of understanding in front of their younger colleagues.

## **Land, Resources and Time**

Both the USA and Canada were built on the assumption that land, energy and resources (such as water, minerals, wood, etc.) are always available. If there is not enough available where you are, go somewhere else (west, in most cases) and you will find it. In North America, energy, land and resources are considered available in virtually unlimited supply; the only commodity that is continuously in short supply is time. By contrast, space, energy and resources are all in visibly limited supply in Europe. The need to conserve them is always present in European minds, particularly those who have experienced the damages of World War II.

This results in very significant business practice differences between the European Union and North America: the size of cars and equipment (from refrigerators to office equipment) the use of lighting, the use and whiteness of paper (North American documents are often single-sided and contain much blank space, for example) are daily examples of this difference in approach.

Similarly, North American businesses tend to prefer building new, flat buildings on large pieces of land rather than revamp existing buildings.

### **Homogeneity**

One common oversimplification made by people on both sides of the Atlantic Ocean consists in viewing the other side as relatively homogeneous from a cultural standpoint. For example, with the notable exception of Quebec, many Europeans tend to view North America as a continuum, with little difference from one location to another. Similarly, many North Americans tend to think of Europe as the British Isles and the rest of the continent.

Europe itself is very diverse, and the UK is culturally closer in many respects to the USA and to English Canada than to Italy or France. Similarly, there are major regional differences within North America: English Canadians and Americans hold very different values on many social issues (including guns, health care, and education). Within the USA, there are significant differences between the Northeastern States, the South, the Midwest, and the Southwest.

Cultural differences between North America and the European Union can be quite significant and need to be taken into consideration when doing business with people on the other side of the Atlantic Ocean. It is also important to keep in mind that neither North America nor the European Union are culturally uniform entities: there are significant variations within each trading bloc, and very few generalities can be stated about one trading bloc versus the other. Furthermore, the differences between European and North American countries depend on the countries considered on each side of the Atlantic Ocean: for example, Swedes can tolerate significantly more risk and uncertainty than Americans, but French people need far more structure and rules than Americans.

## **4. US companies in Europe, European companies in US – a proposed case study of Starbucks and IKEA**

To further develop the different approaches to business of Americans and Europeans, we can give the examples of two well-known companies that have been dealing with the ups and downs of internationalization for many years. Starbucks, a US based franchise and IKEA, the world famous Swedish make-it-yourself furniture provider are two of the many companies that had to adapt to their international buyers.

### **A struggle for Europe**

When Starbucks Corp. opened its first Japanese café in Tokyo's fashionable Ginza shopping district in 1996, it was an overnight smash. Nevertheless, sales have been dropping in Japan since 2003 and it still faces difficulties on the market. It isn't just Japan. From Zurich to Tel Aviv, Starbucks' overseas expansion is running into trouble. Now operating in 40 countries

beyond the U.S. and Canada, Starbucks cafés have encountered a host of problems, from high start-up costs to stiff competition, and, in many cases, resistance to the Starbucks experience. While it has scored big in the U.S. as a hip purveyor of better coffee, it is often seen abroad, especially by European café-goers, as an overpriced imitation of the real thing.

For decades Starbucks has been left out of the Scandinavian part of Europe. While sales in Asia, and especially in Saudi Arabia, were raising, the Scandinavian market seemed like the forbidden land for the international franchise. The first attempts to enter the Scandinavian market were made in Denmark in 2002 and they were not successful. The company decided then that it was just not the right time. In fact, the concept that Starbucks represents for the Scandinavian consumers was that of a “Coffee McDonalds” . Many analysts say that Starbucks has a good coffee, a good service, but it just lacks the atmosphere. When the company decided to enter the French market, it knew what it was up against. France's different coffee-drinking culture and a German partner bailing out are Continental challenges for its aggressive expansion plan.

In France, Starbucks hopes to benefit from cultural change in a country where lingering at family-run cafés is something of an art form. Since the company launched its first French café on the Avenue de l'Opéra on Jan. 16, 2003, nine more have opened in high-traffic locations around Paris.

So far, Parisians don't seem to be balking at paying top-Euro for caramel macchiatos and other beverages in paper or plastic cups. Starbucks lines can be long at peak times, with seating hard to find. Reviews seem generally positive.

Things didn't go smoothly for Starbucks in Germany as well. The different coffee-drinking culture has put its' mark on the whole internationalization process.

Coming back to Scandinavia, Starbucks has opened the first store in Copenhagen Airport in June 2007. The way was not paved with golden bricks for the international chain. Scandinavian coffee-drinkers are some of the most traditional in Europe and Scandinavia is a leading consumer of good quality coffee. Opinions among the people were shared. Some welcomed the store while others reluctantly argued that “they should stay where they came from.” The competition is fierce, but it is not only this aspect of the business environment that Starbucks had to overcome just to find its' way into Kastrup airport.

Many analysts say that the aggressive expansion of the American chain and the way it deals in business have kept it out of the Scandinavian market. Of course, prices and costs have had a certain influence in the decision to open a store in Copenhagen, but the cultural aspects have also been of high importance. The individualistic and masculine approach to business that Starbucks comes with and promotes was not welcomed in the more feminine and less hierarchical Scandinavia. The employee – employer relationship has had a real influence on the way Starbucks might be doing business in this part of the world.

The prediction for Starbucks in Scandinavia or even in Copenhagen is not one of immediate expansion. For now, there are no plans to open any other stores anywhere else than in Copenhagen Airport.

### **New gains from the European market?**

Leaving aside the difficulties it encountered in Europe and mainly in Scandinavia, Starbucks has recently experienced a downfall in revenues from its own US market. This year, the international giant has signed a licensing partnership with food operator SSP.

The deal will see more than 150 Starbucks stores opened in airports and railway stations over the next three years.

The move comes as Starbucks seeks to offset a slump in the US market with increased growth in Europe. In November, Starbucks reported its first quarterly decline in US customer traffic to its stores. The decline has continued, forcing the chain to think of more innovative products and look overseas for future growth prospects.

Starbucks chairman and chief executive Howard Schultz said he was confident the deal would consolidate Starbucks' presence in Europe, including key markets Germany, the UK and France. "This collaboration aligns with our strategy to accelerate growth in our international business," said Mr Schultz. "It provides us with a strong platform to further expand the Starbucks brand across Europe."

In November, the company cut its sales and earnings forecasts saying higher food and energy costs would trigger a drop in the number of Americans buying lattes and espressos. It also said it would open 2,500 stores in its 2008 financial year, 100 fewer than its original target. Starbucks opened its first coffee shop in Argentina earlier this month through a Mexican partnership. Mr Schultz conceded that Starbucks' focus had been "primarily on the US business" but the company's deal with SSP represented a "broader opportunity".

### **IKEA in USA – a success story**

**IKEA** is a privately-held, international home products retailer that sells flat pack furniture, accessories, bathrooms and kitchens at retail stores around the world. The company, which pioneered flat-pack design furniture at affordable prices, is now the world's largest furniture manufacturer.

IKEA was founded in 1943 by Ingvar Kamprad in Sweden and it is owned by a Dutch-registered foundation controlled by the Kamprad family. The company distributes its products through its retail outlets. The chain has 278 stores in 36 countries, most of them in Europe, the United States, Canada, Asia and Australia. 2006 saw the opening of 16 new stores. A total of at least 30

openings or relocations are planned for 2008. IKEA is one of the few store chains to have locations both in Israel and in other Middle Eastern nations.

The first IKEA store was opened in Sweden in 1958. The first stores outside Sweden were opened in Norway (1963) and Denmark (1969). The 1970s saw the spread of stores to other parts of Europe, with the first store outside Scandinavia opening in Switzerland (1973), followed by Germany (1974). During the same decade, stores were opened in other parts of the world, including Japan (1974), Australia and Hong Kong (1975), Canada (1976) and Singapore (1978). Germany, with 43 stores, is IKEA's biggest market, followed by the United States, with 34.

Over the years, IKEA has seen an increase in sales in the US and also a very rapid expansion. But "very rapid" in the IKEA philosophy is a different concept than in the American Starbucks concept. IKEA takes its time. The company came to the US, a strong masculine culture, monochronic and deal-focused business society with its feminine and egalitarian views. In the owner's words the real secret of IKEA's success is that they "are a concept company". IKEA's concept is articulated in a document drafted by Kamprad in 1976: "a furniture dealer's testament." It outlines a set of nine commandments -- including perpetuation of the "IKEA spirit" of enthusiasm, thrift, responsibility, humbleness, and simplicity; and "always asking why we are doing this or that . . . refusing to accept a pattern simply because it is well established."

It seems that IKEA has found a suitable and successful way of being different in a diverse environment and, while adapting to the buyer, remaining true to its starting beliefs.

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## ECONOMICS, PSYCHOLOGY AND HAPPINESS: VIRTUE THEORY VS. SLAVERY OF THE PASSIONS

Oskari Juurikkala\*

### Abstract

*The truth of any economic theory ultimately hinges on the truth of its philosophy of man. In this essay I will analyze modern economic thought from two perspectives: firstly, from its criticism and development by experimental psychology; secondly, from the philosophical anthropology and Aristotle and Thomas Aquinas. I will argue that although there is much truth in modern economics, its philosophical underpinnings are flawed in important aspects, and this accounts for its inability to explain and understand human behavior in some significant respects. I will try to pinpoint the essential character of the philosophical error, and argue for a better philosophy of the person that can provide a starting point for building a new economics.*

### Keywords

*Economics and psychology, happiness, virtue theory*

### Introduction

The object of all economic enquiry is the human person under the aspect of behavior within limited resources. Consequently the truth of any economic theory ultimately hinges on the truth of its philosophy of man. In this essay I will analyze modern economic thought from two perspectives: firstly, from its criticism and development by experimental psychology; secondly, from the philosophical anthropology and Aristotle and Thomas Aquinas.

I will argue that although there is much truth in modern economics, its philosophical underpinnings are flawed in important aspects, and this accounts for its inability to explain and understand human behavior in some significant respects. I will further argue that integrating psychology does not provide a solution to the current state of economics, especially insofar as modern psychology itself is influenced by the same philosophical mistakes.

I will try to pinpoint the essential character of the philosophical error, and argue for a better philosophy of the person that can provide a starting point for

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building a new economics. I will not study the matter exhaustively, but will only attempt to underscore some key concepts and assumptions, which I believe have not received enough little critical analysis. I will sketch at some potential avenues that may help to provide a better grounding, but my main hope is to stimulate further discussion and constructive criticism.

### **Economics and psychology: some recent developments**

Economics is both an old and a young discipline. Its early origins as a science can be traced back at least to the Spanish scholastics of the 16<sup>th</sup> century, who enquired into economic phenomena as part of their duties as moral theologians.<sup>1</sup> However, it was only in the 20<sup>th</sup> century that economics acquired the importance and aura it holds in our society today. One is therefore not surprised to find that questions to do with the methodology and philosophy of economics are still 'work in progress'.

The dominance of one paradigm – sometimes called 'neoclassical' economics – conceals the extent to which there is an ongoing debate on the right way of doing economics. However, recent literature in and around economics has witnessed a surge in discussion on the philosophical underpinnings of economic science. The most important challenges have come from experimental psychology, and they focus on two aspects of the human person: (1) the cognitive limits of human choice and (2) the moral character of human action.

#### *Physics, utility machines, and human behavior*

Economics (especially what is known as 'microeconomics') is essentially a behavioral science: it seeks to analyze, understand and predict human behavior, with special reference to the use of scarce material resources. The hard methodological question is how we ought to picture and model human behavior so as to make sense of it. Pure observations are, of course, of little use on their own, as philosophers of science tell us.

Neoclassical models of economic behavior are broadly built on the models that seek to mimic models used in standard physics. The methodology focuses on (1) abstract, mathematical models of behavior and (2) empirical, mostly quantitative studies using statistical techniques (called 'econometrics'), which seeks to assess the validity of the abstract models. The behavioral assumptions that underlie the mathematical models are generally based on a utilitarian vision of man: man is pictured as a 'rational utility maximizer'. In theory, this can mean

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1 See generally Alejandro A. Chafuen, *Faith and Liberty: The Economic Thought of the Late Scholastics* (Lexington Books, 2003), Murray Rothbard, *Economic Thought Before Adam Smith*, (Edward Elgar, Cheltenham, U.K., 1995), and Joseph Schumpeter, *History of Economic Analysis* (Oxford University Press, USA, Revised edition, 1996).

a number of things, but in practice, most economists tend to assume for the sake of simplicity that people seek to maximize their material wealth, at least most of the time.

This methodology has been attacked from various perspectives. The crux of the issue is whether the behavioral assumptions of so-called 'rational choice theory' are justifiable at all. Man is not the kind of 'economic machine' that the theory would have him to be. This is not merely a philosophical statement, but in other empirical sciences of man, especially psychology, it is well known that man is more complex than that.

Experimental psychology raises at least two concerns. One is the cognitive imperfection of man, which means that our capacity for gathering, analyzing and interpreting data is limited. This often leads us to make decisions which mainstream economic theory would call 'irrational'. Many economists now accept this criticism, and the term 'bounded rationality' is often used to refer to this characteristic of real human behavior.<sup>1</sup>

The other issue is our knowledge of human motivation, which challenges the simplistic assumptions of economic theory. If our cognitive limitations reveal that we are in some sense 'worse' than the neoclassical *homo economicus*, then fortunately, the study of motivation and preferences presents a 'brighter' picture of man.

Robert Frank, for example, writes about the challenge of cooperation and altruism.<sup>2</sup> In mainstream economic models, moral sentiments such as sympathy are assumed away, which suggests that men are unlikely to treat each other well unless they have economic incentives to do so. Frank however points out, citing extensive empirical research, that people are in reality far more cooperative and altruistic than neoclassical models would have it. People are not motivated solely by wealth or other selfish concerns, but are often willing to sacrifice material benefits for moral reasons and the good of others.

Another economist in this field is Bruno Frey, who has studied personal motivation in such contexts as the workplace.<sup>3</sup> The 'principal-agent model' of mainstream economics tells us that employees will cheat their employer, shirk their responsibilities and look for purely personal gains, unless they are properly

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1 A whole school of thought, 'behavioral economics' or 'economics and psychology' has developed, especially after Daniel Kahneman's pioneering research was acknowledged with the Nobel Prize in 2002. Numerous references can be found for example in Kahneman's Nobel Prize lecture, 'Maps of Bounded Rationality: A Perspective on Intuitive Judgment and Choice' (Prize Lecture, December 8, 2002), available at [http://nobelprize.org/nobel\\_prizes/economics/laureates/2002/kahnemann-lecture.pdf](http://nobelprize.org/nobel_prizes/economics/laureates/2002/kahnemann-lecture.pdf).

2 Robert H. Frank, *What Price the Moral High Ground? Ethical Dilemmas in Competitive Environments* (Princeton and Oxford: Princeton University Press, 2004), Robert H. Frank, *Passions within Reason: The Strategic Role of the Emotions* (W. W. Norton & Company, 1988).

3 Bruno S. Frey, *Not Just For the Money: An Economic Theory of Personal Motivation* (Cheltenham, UK: Edward Elgar, 1997)

monitored and given material incentives to work well. Frey demonstrates that the reality is more complicated. He marshals extensive research on 'intrinsic motivation' to show that although material incentives play a role, in many contexts people are more dedicated to their work when they feel trusted, respected and valued. In fact, overemphasizing extrinsic incentives (carrots and sticks) will in many cases cause a crowding-out of intrinsic motivation and lead to an overall decline in productivity.

*More money, more pleasure, yet not fulfilled*

In addition to trying to understand, describe and predict human behavior under the economic aspect, many economists are interested in the normative consequences of their research. Economics as a pure science does not tell us what we should do with the information we acquire, and indeed what kind of problems are worthy of study. These are essentially philosophical questions, but they have important and wide-ranging consequences.

Most economists are not philosophers, of course. But their research does relate to philosophical issues and assumptions in various ways. This can be clearly seen in so-called 'welfare economics', which deals with the conditions for maximizing human welfare with given material resources. It tries to look beyond mere description of behavior, toward what kind of economic, social and political arrangements are good for the society.

Not surprisingly, a central concept in welfare economics is *efficiency*. Efficiency can and has been defined in various ways in economics, but most mainstream economists would agree that economic efficiency is achieved when limited resources yield their maximum benefits, which in turn are understood in terms of subjective 'utility' or, for simplicity, 'wealth'.

This line of thinking has more than theoretical relevance. It also justifies the dominant focus in economics on material well-being and economic growth. It influences economic policy in all its aspects, and implicitly many other political questions too, such as education, environmental policy, taxation, company law, labor law, and so on. Economic efficiency is also the defining feature of development policy.

There is undoubtedly some sense in this drive towards the efficient use of limited resources. However, it is far more problematic philosophically than most economists think. The existence of multiple concepts of 'efficiency' within economics itself testifies to the suspect nature of the term.

Research by psychologists has influenced this discussion too. Even a new branch of knowledge called 'happiness research' or has popped up.<sup>1</sup> Researchers

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1 Bruno S. Frey and Alois Stutzer (2002), 'What can economists learn from happiness research?', *Journal of Economic Literature*, XL: 402–35. A comprehensive bibliography is Ruut

of the 'economics of happiness' try to find empirically stable factors that contribute to the subjective well-being of individuals. Some of their more famous arguments are that unemployment causes serious dissatisfaction regardless of material consequences; that greater wealth correlates poorly with greater happiness, and that local decision-making in politics makes citizens happier than centralized political structures.

Happiness research has been widely criticized in turn.<sup>1</sup> Although it may be helpful in identifying flaws in simplistic welfare economics, it depends on methodologically problematic assumptions. Questionnaire data that may be suspect and equating happiness with subjectively estimated well-being is philosophically highly problematic. The empirical stability and universalisability of the research is also in doubt. Thus it is a field of research that may provide helpful hints, but one should be cautious in relying too much on its claims.

### **Key issues and challenges**

#### *Getting under the skin: the need for an inside view*

The developments outlined above represent important steps toward a more realistic vision of man in economics. However, they also raise further questions which, I believe, they are not able to answer. Psychology can tell us only so much about human behavior. It can help us to identify behavioral regularities and tendencies that contradict the assumptions of mainstream economics, but it does not explain the reason for those tendencies. Like empirical economics, behavioral sciences look upon man 'from the outside', and the challenge is to get inside, to understand man 'from within'.

The need to understand human behavior from within is not mere philosophical pedantry. A careful look at the history and methodology of economics reveals that getting an inside perspective to behavior has been a central concern and the key to the success of economics. By creating a model of the internal logic of human behavior with respect to choice in situations with multiple ends and scarce means, economics has built a theoretical basis for interpreting a wide range of social phenomena. Empirical research has played a role, but empirical studies would be practically meaningless without the theoretical basis. Note, moreover, that the argued flaws of mainstream economics can broadly be identified as errors (untruths) in the assumptions on

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Veenhoven, (2007), World Database of Happiness Bibliography, available at <http://www.worlddatabaseofhappiness.eur.nl>.

<sup>1</sup> See for example Helen Johns and Paul Ormerod, Happiness, Economics and Public Policy (London, UK: Institute of Economic Affairs, 2007), available online at <http://www.iea.org.uk/record.jsp?type=book&ID=416>.

which the theoretical models are built; empirical studies are less relevant to this criticism.

Psychology too makes assumptions about the human being. This is necessary for empirical research, and empirical findings in turn influence the assumptions. However, that loop is not perfect, and psychology cannot answer all the questions it poses. Psychology has not as of yet been able to build a competing theoretical basis for doing economics. It may be for this reason that the influence of psychology on economics has so far been modest. Most economists pay little or no attention to what psychologists have to say about behavior. They treat the findings as merely identifying certain 'anomalies' in human behavior (i.e. aspects that do not fit the theoretical models of economics). At most, these anomalies mean that we need to be a bit more cautious in applying our theoretical models into real cases, but nothing more than that. A better theory is needed, one that incorporates what is true in both 'old' and 'new' economics, and integrates them in a single, unified theory. That is yet to be achieved.

### *Plunging into the deep: black boxes in utility machines*

Ultimately, questions dealing with the theoretical basis of economics turn on the philosophy of the human person. It is there in the deep waters of philosophy – where, unfortunately, most economists feel themselves utterly at loss<sup>1</sup> – that economics either succeeds or fails. Of course, the philosophy of man implicit in a practical science such as economics or psychology can be true in some respects and erroneous in others.

I will argue that the philosophy of man implicit in mainstream economics is partially (but not entirely) mistaken. I will further submit that the assumptions implicit in most of experimental psychology today are in crucial respects similar to those in mainstream economics. This is why the insights of experimental psychology do not penetrate into, and challenge, the more fundamental issues in mainstream economics.

The key idea is this. The *homo economicus* concept of modern economics was inherited from the thought of the English-speaking classics such as Adam Smith and David Ricardo. Their vision of science was greatly inspired by the success of Newton's physics (just as mid-20<sup>th</sup> century economists were influenced by later physics). This was easily combined with the utilitarian moral philosophy that was gaining ground in those days, a philosophy that presented

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1 This is because modern training in economics is devoid of any philosophical thought and reflection. PhD economists know a great deal about formal mathematics, statistics and other 'scientific' methods, but they have rarely opened a single book on philosophy.

man as a machine in search of its utility: human choice is merely based on a calculus of pleasure and pain.<sup>1</sup>

The model of man as a utility machine is not entirely erroneous: man is built with a natural instinct for pursuing that which is pleasant and avoiding that which is unpleasant. This partial truthfulness of utilitarian thought may explain much of its success. However, the deep flaw in its vision of man is the way in which it understands *rationality* and the role of *reason*. This is also the key to understanding where modern economics goes astray.

Modern economics understands rationality in a purely *instrumental* sense. Men are taken to be rational when they pursue their chosen ends (or 'utility' or 'preferences') consistently and efficiently, given the resources available to them (modern economists give more precise, mathematical definitions, of course). However, the fundamental basis of choice – what prompted them to *choose those ends* – is left open, and is indeed implicitly assumed to be unknowable. Rationality pertains to the external expressions of choice only, whereas the inner dynamic of the person – his moral core, as it were – remains a mystery, a black box.

The problems flowing from this black-box conception of choice and preferences are actually concealed by the ostensible simplicity of the *homo economicus* picture of man. People just pursue what they feel like, and that's it – nothing mysterious about it. It is not for us to judge the likings of others, it is presumed.

The instrumental view of rationality was put more famous by David Hume: 'Reason is, and ought only to be, the slave of the passions, and can never pretend to any other office than to serve and obey them'.<sup>2</sup> Hume's literally passionate assertion has wide-reaching consequences, and it makes explicit what is implicit in so much of modern thought, particularly economics.

To reiterate, the neoclassical model of economic behavior leaves no room for the imperfections of human reason. This leads many economists to assume (explicitly or implicitly) that all choice necessarily makes the person better off; by their choices, people *reveal* their preference for that choice. True, life is hard and conditions may be difficult, but our failure to be completely satisfied lies *outside* of us, not in our opting for wrong or unhelpful ends. Not surprisingly, there is a tendency among many economists to embrace a certain kind of determinism, a denial of freedom of choice (economists do not necessarily think

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1 Alejo Sison, *La Filosofía de la Economía III: Los Fundamentos Antropológicos de la Actividad Económica* (Pamplona: Cuadernos del Seminario Permanente Empresa y Humanismo 53, 1995). Note that modern utilitarians come in various sizes and shapes, as many realize that the pleasure-pain calculus is an insufficient representation of real human choice.

2 David Hume, *A Treatise of Human Nature*, Book II: "Of the Passions" (first published 1739-40), available online at <http://etext.library.adelaide.edu.au/h/hume/david/h92t/>.

this is true in real life, but it is still *roughly* correct and hence instrumentally useful for creating economic models).

Psychology brings some realism – but only some. Research on our cognitive limitations reveals that the *instrumental* reason of man is not perfect. The imperfectability of instrumental reason can account for many of the 'anomalies' in real behavior. It explains why men often choose suboptimal (or even completely irrational) means in pursuing their chosen ends. However, empirical psychology fails to open the black box. Insofar as it is purely empirical (and not genuinely philosophical), it lacks the conceptual tools and methods for entering into the inner realm of choice. Moreover, it would seem to me that most of modern psychology is just as much influenced by Hume's vision of human rationality as is economics.

### *The dilemma of morality: caught in Hume's cage*

As far as morality and behavior are concerned, the key challenge seems to be, how we can account for freedom in moral choice. In other words, if reason is just a slave of the passions, as Hume said, then it seems that moral choice is determined by our inner impulses alone – appetite, fear, and other emotions and feelings.

The problem can also be seen in Robert Frank's analysis of cooperation and altruism.<sup>1</sup> Frank's main goal is to demonstrate that economic models built on an assumption of narrow self-interest are unrealistic: they simply do not describe real human behavior. Now, some economists object that they can account for altruism and other kinds of seemingly unselfish traits by just including them in the 'utility function' (note here the excesses of the black-box approach to choice). However, Frank points out that this renders the entire method unscientific, because if one tries to explain everything away by calling it a 'taste for something' (e.g. altruism), one is not explaining anything at all.

As a solution, Frank proposes a broader concept of self-interest, which includes the 'strategic value of moral emotions'. The basic idea is this: people can be self-interested in a broader sense, even when they behave unselfishly, because cooperation and altruism are at the end of day beneficial for the actor himself.

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1 Robert Frank, *What Price the Moral High Ground? Ethical Dilemmas in Competitive Environments* (Princeton and Oxford: Princeton University Press, 2004). This is of course not the only book on the subject. However, Frank is probably the best know economist to have raised – and tried to answer – these questions about morality and economic behavior. He is also a prominent economist in other ways; for example, his *Microeconomics and Behavior* (McGraw-Hill/Irwin, 5<sup>th</sup> edition 2002) has probably been the most widely-used microeconomics text in recent years. I will therefore take his views as broadly representative of the state of the art in thinking about economics and morality.

For example, someone who wants to do business must be able to acquire the trust of his partners, and that is difficult for people who are ruthlessly selfish.

Now, that much can be included in the 'rational choice models' of the old economics: people are not selfish, but intelligently self-interested. Frank goes further than that, however. After all, experimental studies demonstrate that many people behave altruistically even in contexts where it is impossible for them to get any material benefit from their choice – for example, when the parties do not know each other, do not have any contact with each other during the experiment, and will not meet each other afterwards. This is a genuine anomaly for models of intelligent self-interest.

This is why emotions matters. We are not perfectly rational, as psychology demonstrates, but our passions – including the moral emotions – direct our choice. An explanation for the moral emotions is offered by evolutionary psychology: we have been wired with emotions that foster cooperation, because that is helpful for our survival. However, the roots of Frank's argument lay beyond evolutionary psychology; they are actually found in the very works of David Hume and Adam Smith.<sup>1</sup>

The concept of moral emotions – such as altruism and sympathy, but also revenge and anger – is important and valuable. Clearly, some people are emotionally better disposed to cooperate than others. The question is, however, whether that is the whole picture of what morality is about. I would suggest that by rooting his analysis in the thought of Smith and Hume, Frank gets trapped in Hume's intellectual cage.

The problem is this: how can we account for *freedom* in moral choice? If man is not truly free to choose between alternative moral options, what is the point of this discussion other than intellectual entertainment?

For example, Frank talks about 'preference for cooperation'. To him that is a key prerequisite for success in social life, including business. However, in order to incorporate his theory into economic models, Frank treats this preference as something stable, even innate. But that implies that people do not have real freedom in moral choice.

Frank does not deny that people can change their attitudes towards others. He notes that businesspeople use various methods for forging and signaling sympathy (which is necessary for cooperation): gift-giving, having a drink together, and using friends and relatives in business. He also points out that the emotional predispositions to cooperate can be altered by education; for example, it has been demonstrated that training in economics tends to make people more egoistic (as it creates rationalizations for selfishness by arguing that 'greed is

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1 Recall that Smith's other famous book is entitled precisely *The Theory of Moral Sentiments* (first published 1759), available online at <http://www.econlib.org/Library/Smith/smMS.html>.

good'). But none of that is real freedom; man is changed purely from without, not by personal choice.

The paradox is that as Frank attempts to incorporate moral emotions into the corpus of mainstream economics, he squeezes real life and ordinary experience out of morality. For example, he discusses at length the problem of commitment to marriage, and points out that emotional bonding is the best way to ensure commitment. But commitment to marriage is in Frank's analysis framed in pure cost-benefit terms, just like in business relationships. That is not only morally problematic in the eyes of those who hold a higher opinion of marriage, but it is also dangerous in practice. As Frank himself notes, studies show that when therapists encourage people to think about their relationships in cost-benefit terms, it tends to backfire. This strikes the root of Frank's approach to morality: when morality is analyzed within the philosophical framework of Smith and Hume, it can be incorporated into mainstream economics, but its true character gets distorted.

### *Pleasure, wealth, and the paradox of systematic sorrow*

The philosophical roots of economics are also reflected in normative issues and the question of happiness. Mainstream economics posits a perfect instrumental reason and a non-existent moral reason. In other words, reason does not guide moral judgment; it simply helps in execution. Ethically, this means that people should be allowed and enabled to pursue their desires to the maximal extent possible (perhaps tempered by J. S. Mill's 'harm principle'). Politically, this leads to an overemphasis of the importance of economic efficiency and growth: the more material means we have at our reach, the higher levels of satisfaction we can attain.

The trouble is that, clearly, the reality is not so simple. Pleasure, money and endless cachets do not make people happy, whereas people are capable of true fulfillment even in the midst of material poverty. That is difficult to explain from the point of view of economic theory. It is particularly difficult to understand how some people can be *systematically unhappy*.

Adding cognitive limits to the picture helps a bit. It explains why people can fail to choose the best means for pursuing their chosen ends – pleasure, wealth, power or any other proxies of human satisfaction. However, it cannot deal with the failure of some to pursue the right goals – those ends that contribute to genuine human fulfillment. It seems that the systematic unhappiness of some persons is a bit of a mystery. The only solution is to blame the surroundings, the difficult circumstances – or, invoking evolutionary psychology, to blame one's genetic errors for unhelpful moral emotions.

## **New foundations: philosophical anthropology of Aristotle and Aquinas**

### *Hume's mistake: passions and reason*

It is surprising that despite the fame of Hume's statement on the relationship between reason and the passions, Hume's original argument for it is so awkward as to hardly merit even discussion. It seems to be equally difficult to find in later authors any real defense for the belief that reason can only be a slave of the passions, and especially that such a state of affairs is morally laudable.

Common sense alone would suggest otherwise. We are, at the very least, capable of experiencing ourselves as being truly free to choose between different moral options. The fact that we experience moral dilemmas and can *repent* of past choices attests to the fact that we are making real choices between mutually exclusive visions of right and wrong. The dynamic of moral choice is not a matter of the intellect alone, but reasoning and intellectual deliberation is certainly an important part of it. That is why we sometimes ask our friends and companions for advice in specifically *moral* matters ('do you think this course of action is okay?' or 'should I be working for this company?'), and we expect guidance that goes beyond the merely technical and consequential.

All of this common experience implies that we are in fact capable of controlling and directing our passions, feelings and emotions. Sometimes we do it better than other times. We can personally sense a real and fundamental difference between times when we allowed ourselves to be swayed by our passions (e.g. eating another piece of cake even though we knew we would feel bad afterwards) and times when we freely chose to pursue that which was truly good.

Those who deny the possibility of a non-instrumental, or moral, capacity in human rationality can merely claim that I am being fooled by my experience, that my sense of freedom is an illusion. Yet just the contrary would seem to be the case, namely that it is they who are being deceived by their distorted reason. The simple question is what kind of explanatory model makes more sense of the data and on this Hume's assertion fails entirely. (Frankly, the only way I can personally account for the reluctance of some persons to acknowledge this is that they do not *want* to believe in the moral powers of the human spirit, perhaps because they are emotionally attached to some fleeting source of pleasure which they erroneously do not want to give up so that they could aim for the higher things.)<sup>1</sup>

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1 This is also suggested by classical virtue theory. The virtue of prudence (the stable ability to think and act in accordance with objective reality) requires all the moral virtues too: justice, fortitude and temperance. The person is a unified whole, and a deficiency in one's ability to control the sensory appetites so as to pursue that which is truly good also weakens and darkens the clarity of the intellect.

## *Virtues, goods and fulfilment*

But if we do acknowledge a greater capacity for the human spirit, then a radically different picture of man is exposed. I will call this picture of man the *philosophical anthropology of Aristotle and Aquinas*, as these two great minds were perhaps the leading figures in fully articulating a complete philosophy of man.<sup>1</sup>

The human person, according to Aristotle and Aquinas, is not endowed with perfect rationality, but a rationality that despite its limitations is capable of controlling the totality of the person. Thus reason need not remain a slave of the passions, and it must not become content with such a state, because the reduction of human reason to the purely instrumental is not only a sign of moral weakness but also a sure cause for personal misery. In contrast, the triumph of the rightly ordered reason within the person is the basis of true fulfillment.

In ancient Greek and Medieval ethics, social relations played only a small part. This was because morality was primarily seen as something personal: it is not what you do to others, but what – through your moral choices – you do to *yourself*. Moral choices ordinarily (but not always) have external manifestations that have a bearing upon others, but that is secondary to how we shape ourselves and hence our own happiness through our choices between right and wrong. It was on the basis of such a vision of morality that Socrates was able to say with full conviction: 'So the unjust man, like every man who possesses bad things, is pitiable in every way'.<sup>2</sup>

In modern times the ethics of Aristotle and Aquinas are also known as *virtue ethics*. More than a moral philosophy, it is a complete philosophical anthropology, a vision of what man is like, how the inner dynamic of human choice operates, and what man needs in order to attain happiness. The key insight of this theory is that man is neither a clever beast nor an angelic non-beast. He is capable of both good and evil. Our passions are neither good nor evil in themselves, but only depending on the ends to which they are directed. For example, the desire for food is good insofar as it directs our attention to the necessary preservation of corporeal life, but bad when it goes over the board to gluttony.

The mere satisfaction of bodily desires is not what makes the person happy, but when then really provides lasting fulfillment is a complex question, as it is not an easy task to make explicit all the aspects of the problem. This article cannot go into details on that. However, let us briefly make reference to some of

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<sup>1</sup> There are several introductory books and deeper studies. Aristotle's *Nicomachean Ethics* is well worth a read; an interesting study of Aquinas is John Finnis, *Aquinas: Moral, Political, and Legal Theory* (Oxford University Press, 1998).

<sup>2</sup> See *Gorg.* at 469b, quoted in Roslyn Weiss, *The Socratic Paradox and Its Enemies* (Chicago University Press, 2006), at 203.

the insights of philosophers such as John Finnis and Germain Grisez, who started what came to be known as the 'new natural law' theory.<sup>1</sup> They built on the thought of Aquinas and other classics, but incorporated insights from more recent literature, including anthropology.

On the basis of their investigations, these authors concluded that there are several 'basic human goods'. These are the basic and fundamental reasons for any human action. They include at least the following (but the list is by no means exhaustive): life, truth, friendship, aesthetic experience, skillful play, religion, and practical reasonableness. None of them alone is the key to human happiness, but instead they are all aspects of integral human fulfillment. We are capable of identifying them as such through personal reflection; moreover, one can find them mirrored in anthropological literature on diverse human cultures. Many goods – food, money, and so on – are ultimately just means for participating in the basic goods. The same is true of the human passions (attitudes toward pleasure and pain): they help man to act so as to participate in the basic goods – although, as mentioned earlier, they do so properly only when controlled by the rightly ordered reason.

In view of this, the fundamental problem with 'happiness research' becomes clear: in the terminology employed by the philosophical tradition of Aristotle and Aquinas, 'happiness' (understood as that which all men aspire to) is never equated with mere 'sense of satisfaction'. Satisfaction can mean a number of things, including the mere attainment of sensual pleasure, as while eating a cake, but that is very different from our integral fulfillment as human persons.

### **Conclusion: Returning to the foundations**

The way we approach economics depends on our understanding of man. Doing economics with the philosophy of Aristotle and Aquinas would have a number of consequences. On the one hand, it would challenge the current foundational concepts of economics, such as *utility*, *preferences*, *efficiency*, *growth* and *development*. This is not just a question of what importance we should give to, say, economic efficiency and growth, but also what we actually mean by them.

Take for example the concept of efficiency. In economics it generally refers to the ability of a process or arrangement to produce the maximum amount of profits (or some other goods). In practice, there have been various attempts to give more precise and practical definitions that could be used in normative analysis. The failure of any specific definition to stand out seems to be reflective

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1 See for example John Finnis, *Natural Law and Natural Rights* (Oxford: Oxford University Press, 1980).

of the fact that, frankly, it is quite senseless even to try to define efficiency both generally and specifically at the same time.

The same is true of economic development. This is commonly equated with the growth of the Gross Domestic Product (GDP), a figure that estimates the total production of an economy. The obvious problem with that is that the sheer availability of a multitude of products may not be a good estimate of the well-being of the society – nor of the opportunities available to individuals for participating in basic human goods such as friendship, truth and aesthetic experience.

Genuine economic development – and true *economic growth* – means not that the limited resources are used to satisfy the aggregated desires of individuals to the maximum extent, but that those resources are used well and wisely at the service of the real good of all persons. The employment of new technologies, more flexible arrangements and healthy competition may be part of that, but they alone will not necessarily channel the productive efforts of men and women to those purposes that matter most. For that, personal virtues and a sound moral ecology are needed.

The transformation of economics starts with the foundational concepts, but it proceeds towards specific branches of research. This includes, at least, microeconomic theory in most of its aspects. For example, the study of economic cooperation must go beyond the merely emotional side of morality. As we saw earlier, an exclusive attention to the moral emotions is ultimately misleading, because it blinds us from the broader perspective. In light of the new natural law theory, for example, sympathy and altruism are not mere 'strategies' for obtaining benefits from others; they are crucial ingredients for genuine human relationships, for friendship and love – and unlikely purely material gains, these are constitutive aspects of human fulfillment. Morality is cannot be merely 'not irrational after all'; in contrast, an exclusive focus on the egoistic and the material is itself unreasonable.

To finish, let us take note of what Pope John Paul II once said about economic development: 'The moral causes of prosperity [...] reside in a constellation of virtues: industriousness, competence, order, honesty, initiative, frugality, thrift, spirit of service, keeping one's word, daring—in short, love for work well done. No system or social structure can resolve, as if by magic, the problem of poverty outside of these virtues.'<sup>1</sup>

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1 John Paul II, 'Address to the U.N. Economic Commission for Latin America and the Caribbean', *Origins* 16 (April 16, 1987): 775.

## URBAN ROAD INFRASTRUCTURE: AN ECONOMIC ANALYSIS

Bogdan Glăvan\*

### Abstract

*The importance of road infrastructure for an economy cannot be overstated. It cannot be denied that romanian road infrastructure is in crisis, despite many solutions that have been advanced to cure this problem. This analysis shows that private investments in human capital are possible and profitable on a free market. State intervention in providing public roads is responsible for the systematic misallocation of resources and the plethora of problems that affect our road infrastructure.*

### Keywords

*Road infrastructure, free market, property rights, public goods, electronic road pricing*

### Introduction

Recently there has been a lot of discussion about the importance of infrastructure for the coherent development of a city or a country.

Two views can be discerned on the issue of property rights of the roads. On the one hand are those who argue that roads must necessarily be part of the public domain, built from taxpayers' money and equally open to all individuals. They consider roads as a clear example of public goods. On the other hand there are those who advocate the privatization of roads. In their opinion, streets are not different from any other usual goods and their construction and maintenance should be left to market forces.

This paper examines the issue of road infrastructure from an economic perspective and argues that the road problem is not a management (or engineering) problem but a property right problem. It discusses how the present road crisis can be alleviated if a proper reform is implemented.

### Road infrastructure and property rights

Building roads is not inherently a difficult business, as experience seems to imply. At a closer reflection, the sensible economist has to acknowledge that the

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negative facts commonly associated with road infrastructure are not as much the result of peculiar failure of public policy as the outcome of a particular institutional framework encompassing the production of roads.

The public infrastructure system establishes in fact an institutionalized separation of ownership and control in the production of roads. Roads are financed *via* taxes raised by the central authorities but the government has no control over the allocation of resources. Thus, a waste of resources and many different problems result systematically whenever suppliers of funds cannot decide over the allocation of the road infrastructure they produce.

Various proposals have been advanced to mitigate the deep problems affecting our road infrastructure. The basic idea is that the socialization of road infrastructure should be expanded into a even more comprehensive socialization. The state should not only build new avenues, passages and bridges. It should discretionary establish new rules for using the roads. Parking in downtown area should be to a large extent forbidden. The government should build special parking areas outside the city, compelling all non-residents to leave their cars there and use only public (mass) transportation for visiting the city. Delocalization of certain institutions (universities, hospitals, courts) outside the city to reduce traffic congestion – represents another policy proposals. None of the above-mentioned policies brought positive results, mainly because they did not target the root of the phenomenon. They are technological solutions for what is essentially an economic problem.

#### The conventional economics of road infrastructure

The crucial point in the public good theory of roads is that free market will under-invest in the production of roads because of the existence of free-riders. Therefore, the amount of infrastructure will be lower than the social optimum, and the state is invited to close the gap by collecting money from all inhabitants and spending them to produce the “right” infrastructure.

As in other economic areas, public ownership in the field of road construction creates incentives for individuals to follow their personal interests to the detriment of the group. Municipalities who are lobbying more effectively for government financial resources are consequently more successful in developing a better road network. At the opposite corner are municipalities governed by people without political ties with (or even worse, opposed to) the ruling party. In these regions, road are brought to ruin.

It is nevertheless true that road transportation plays a critical role in enhancing the productivity of individuals. But the process of building streets is costly, as any other investment. This cost reflects the value of labor force and materials used in the building of roads. These resources are valuable because

they can be employed alternatively in the production of other goods demanded by the public.

The most important question the infrastructure building system has to answer is what type of roads, in what quantity and for what price it is needed in the economy. On the free market, entrepreneurs engage in the production of roads and start offering specific transportation venues if they judge individuals' demand for such projects is sufficiently intense. Competition among private suppliers of road services leads to the efficient use of society's scarce resources and challenges entrepreneurs to provide exactly the infrastructure people need. Of course, it does not mean that road building will be flawless on a free competitive market. Occasionally, even private providers of roads will fail to anticipate properly the magnitude and composition of infrastructure demanded by the public. Yet error is inescapable in human affairs. Competition among different entrepreneurs will eliminate the less able entrepreneurs and keep the number of such errors to a minimum.

At the present, road building is not considered an ordinary economic investment. Because roads are considered a public good, governments have socialized the provision of roads throughout the world. The process runs as follows. Each of us pays taxes. The state uses a part of the money collected through taxation to subsidize infrastructure building. In principle, the system should provide the society with the proper road infrastructure for increasing the productivity, so that to increase the future income in order to offset the effort of taxpayers. In reality, the system malfunctions are obvious. The inferiority of government controlled road infrastructure results from several problems.

The fundamental problem with public infrastructure derives from the impossibility of calculation in a public property system. Following Mises (1990), Rothbard (1970, p. 825-828) pointed out that any punctual decision to socialize production introduces an island of calculational chaos in the market economy. Under public property of resources employed in road building, meaningful prices cannot emerge and individuals' preferences for acquiring roads cannot be rationally fulfilled. State intervention on infrastructure falsifies the true cost and return of various infrastructure services. In a socialized system of road building, one cannot know what precise investment in roads is profitable or not. As a consequence, the question in which exact direction road investments need to be channeled cannot be answered accurately.

A second problem with public infrastructure is that government bureaucracy has poor incentives to adjust the provision of infrastructure according to the market participants' preferences. Put it differently, this system does not encourage good transportation network. Innovation and improvement in quality will not be the main priority of public officials. Rather, the directors of government-owned (or sponsored) agencies will pursue their own objectives and seek to satisfy the political demands of education policymakers.

In practice, public infrastructure building lead to excessive costs, overuse of resources and misallocation of roads. This process has nothing in common with economic efficiency and welfare maximization, because, as Rothbard (1970, p. 820) observed, “since there is no pricing, and therefore no exclusion of submarginal uses, there is no way that the government, even if it wanted to, could allocate its services to their most important uses and to the most eager buyers. All buyers, al uses, are artificially kept on the same plane. As a result, the most important uses will be slighted”.

First-best option to reform: road infrastructure and the private property regime

When we speak of a free market, we mean that property rights can be easily defined and enforced on all existing economic resources (including roads) and that each property owner has the unhampered right to use his property as he sees fit.

In the absence of an institutionalist (property rights-based) analysis of road building, it is difficult to explain why private organizations (such as commercial halls) do not face the same shortage of roads as the state does. The best example is provided by malls or residential parks. The entrepreneur who undertakes the construction of a condominium or a mall is careful to provide its customers with the necessary infrastructure: streets, corridors, stairs, passages, elevators, ways of access, points of exit, and (last but not the least) parking areas.

The optimal amount of road network can only be reached if each individual paid the full cost for using infrastructure, that is, if roads fall entirely into the realm of private enterprise.

“The earliest roads, we must never forget, were private turnpikes. Tollgates collected on the basis of the weight of the wagon, the number of axels, the number of horses and the width of the wheels. Thin-wheeled vehicles could go faster, but would create ruts in the road, and were therefore charged more. Thick-wheeled ones would serve something of the function of a steam-roller, flattening out the road and making it more passable for others, and were thus charged less.” (Block 2003, p. 5)

Entrepreneurs will be encouraged to supply roads in the quantity and of the quality customers are eager to use.

“The reason a company or individual would want to build or buy an already existing road would be the same as in any other business-to earn a profit. The necessary funds would be raised in a similar manner-by floating an issue of stock, by borrowing, or from past savings of the owner. The risks would be the same-attracting customers and prospering, or failing to do so and going bankrupt. Likewise for the pricing policy; just as private enterprise rarely gives burgers away for free, use of road space would require payment. A road enterprise would

face virtually all of the problems shared by other businesses: attracting a labor force, subcontracting, keeping customers satisfied, meeting the price of competitors, innovating, borrowing money, expanding, etc. Thus, a highway or street owner would be a businessman as any other, with much the same problems, opportunities, and risks.” (Block 1979, p. 215)

Private suppliers of infrastructure are able to mitigate the problems which plague the present situation: poor quality service, congestion, crashes etc.

Secondly, private investors in infrastructure will be adequately stimulated to find the most effective contractual solutions in order to retain control over their investment. Only private economic agents are stimulated to discover the most fitted contractual solutions, which benefit both sides of the contract, that is, allow each part to fulfil its own interests. Put it shortly, investment in infrastructure under a private property regime is profitable because it is profit-oriented.

“There is an approach to the problem of traffic congestion—the economic approach—which offers a rational and practical solution. . . . The first step is to recognize that road space is a scarce resource. The second, to apply to it the economic principles that we find helpful in the manufacture and distribution of other scarce resources, such as electricity or motor cars or petrol. There is nothing new or unusual about these principles, nor are they particularly difficult. What is difficult is to apply them to roads, probably because we have all been brought up to regard roads as community assets freely available to all comers. The difficulty does not lie so much in the technicalities of the matter, but rather in the idea that roads can usefully be regarded as chunks of real estate.” (Roth, 1967, p. 16.)

On a free road market, entrepreneurs will utilize electronic road pricing to charge automobilists for using major streets and avenues.

Good maintenance of roads would also be encouraged if roads will be under private property. It is a well-known fact that, at the present, in the winter season, motorists are heavily affected whenever meteorological conditions get worse. If snow strikes hard enough, circulation is practically prevented completely, and this happens despite the progress of forecasting techniques which have made possible to predict with accuracy the details of the weather conditions with days in advance. In a free market situation, road blockage as a result of natural conditions (as in the case of Valea Oltului) will incur heavy losses on roads’ owners. Each hour of blockage means the road owner loses the income he would have obtained if motorists used his road and paid him taxes. Therefore, road owners will have adequate incentives to make the necessary preparations for keeping the road open under difficult weather conditions.

Moreover, road owners will be interested in conserving the value of their property, and therefore, will not use corrosive materials or inappropriate machines for removing snow and ice. It is highly improbable that under a private

property regime we will see the crater-like holes in the road we are accustomed to see every spring as a result of the inept maintenance of the road during the winter season.

A private property regime on roads will improve also the whole set of regulations known as the “Circulation Code”. Because roads will be private, traffic will be regulated as the road owner sees fit. There will be no nation-scale debates about speed limits, although entrepreneurs will be mostly interested in establishing the most appropriate rules for the particular road they manage. The decision concerning the speed limit will not result from the interest of the road owner, who prevails in the bureaucratic struggle, but from the interest of the road owner, who is stimulated to issue traffic regulations that guarantee a fluent circulation. Minimizing the number and gravity of car accidents will be a clear intermediary goal of these regulations.

Traffic congestion is one of the major problems that plague circulation on the public roads. Congestion imposes a plethora of negative consequences not only on motorists, but also on society at large. The time spent waiting in line or advancing with 5km/h is a waste for all those involved. The absence of fast transportation prevents a smooth allocation and employment of resources. Moreover, it increases the costs of transportation, because fuel consumption is much higher than in normal traffic conditions. In addition, agglomeration is one of the main reasons for the increased pollution in the big cities. And this is not the end of story. Traffic congestion makes the vehicle to deteriorate at a much faster rate than in normal conditions, especially if it happens in extreme weather condition (hot temperatures).

Although many commentators have provided various solutions to this problem, their explanation usually misses a fundamental feature of most traffic jams. This defining characteristic of congestion is that most traffic jams happen in the so-called “peak hour” or “rush hour”. There is little traffic congestion at night, in the weekend, or even in the working days around noon. Motorists start to agglomerate in the morning (when everybody goes to work) and in the evening (when people go home).

In a private property regime, road owners are interested in eliminating traffic congestion. At the root of this assertion is the proposition that any entrepreneur is not interested in serving as many customers as possible, but in obtaining maximum profit. Since the costs of a road are to a large extent of a long-term nature, it can be said that road entrepreneurs will be interested in maximizing their revenue – which is given by the number of cars passing on the road multiplied by price. Because the number of cars using the road is a function of price, it means that road owners can relatively easy obtain the maximum profit by setting the price. Given that demand for using the road changes in a 24 hours period, the road owner is expected to increase its profit by varying the price from a low level when traffic is less intense (during the night,

for instance) to a high level during the peak hours. Thus, road companies will adopt a policy similar to that implemented by phone companies, for example, which charge their customers differently depending on the moment the call is made.

Another thing to point out is that we will probably not experience situations when roads are blocked by union strikers, as it sometimes happen in the present situation. In fact, no such case has ever occurred on a private property.

### ***Second-best option: electronic road pricing***

Electronic road pricing (ERP) is essentially an attempt to imitate the functioning of a free market in road building, without implementing a reform on property rights regime. It approaches the road problem from a managerial perspective. In what follows we will analyze more closely this policy.

ERP has been implemented in several major cities, and the results have been more or less spectacular. Singapore in 1975 was the first city to adopt a form of congestion pricing based on area licensing; in 1998 it has been the first major city to adopt a comprehensive ERP plan. London has implemented ERP for the first time in 2003 on a 8 square mile area (25 square km.), and four years later it decided to double the size of ERP zone. A congestion tax is also imposed on vehicles driving into and out of the Stockholm inner city zone. Road authorities in Dubai have imposed an ERP area (called “Salik”) on July 2007. Milan is currently experiencing a road-pricing scheme for an area of 3 square miles (8 square km.). New York City Mayor Michael Bloomberg has proposed a traffic congestion fee for vehicles traveling into or within the Manhattan central business district of New York City.

Road taxes can be differentiated according to engine capacity, fuel type, type of vehicle (car, motorcycle). ERP is differentiated according to time of day, traffic zones and type of vehicle. The effects of ERP’s introduction have been noteworthy. Thus, in Singapore, road pricing has had a strong impact on the mode of transportation: public transport share rose from 46% in 1974 to over 60% today. The ERP system experienced in Trondheim (Finland) has shown that a significant number of people decided to walk or use bicycles instead of cars, which had an equal important effect on decreasing pollution. Among other consequences, it has been reported fewer waiting hours for public transport because of reduced traffic congestion and fewer delays in transport of goods. In London, the ERP scheme has reduced traffic levels and cut carbon dioxide emissions by almost a fifth.

## Road pricing system – characteristics and results

<i>Features</i>	<i>Effects</i>
<ul style="list-style-type: none"> <li>• Cameras and electronic gates installed on the roads which communicate with electronic devices installed on vehicles</li> <li>• Differentiated fees, discriminating between:               <ol style="list-style-type: none"> <li>1. Residents and non-residents</li> <li>2. Personal or commercial cars and public or emergency vehicles</li> <li>3. Weekdays and weekends / day and night / normal and rush hours</li> <li>4. Small and big vehicles (SUVs and MPVs)</li> </ol> </li> </ul>	<ul style="list-style-type: none"> <li>• Reduced traffic jams</li> <li>• Public transportation rises</li> <li>• Waiting time for public transportation declines</li> <li>• Faster delivery of goods</li> <li>• Change in the transportation mode: use of bicycles rises, more frequent walking</li> <li>• Less pollution</li> <li>• Increased revenue for municipality</li> </ul>

However, ERP cannot solve definitively the road crisis. Being a state policy, it incurs all the difficulties public activities have in general: impossibility of calculation and lack of appropriate incentives. Many questions remain unanswered. For example, how does the road authority know what is the “right” level of the price to be paid for using a street?

### Conclusions

This paper intended to provide an alternative perspective on the problem of road infrastructure. It argues that only a deep reform can solve the present crisis. This reform should consist in a complete privatization of road infrastructure. Second best solutions, like ERP, can be of help, but may also generate additional problems.

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## MERCHANDISING – THE ART OF SELLING

Diana Soca\*

### Abstract

*Merchandising is that part of marketing that brings together a series of marketing techniques as well as product promotion techniques in shops. Synthetically we can call merchandising the art of selling. This syntagme refers to aspects like the interior and exterior design of a shop, the merchandise display as well as the practiced selling methods and the services offered.*

### Keywords

*Merchandising, product promotion, marketing techniques, shopping services*

The term “merchandising” was taken over from English and according to the definition given by well known specialists it stands for “that part of marketing which encompasses the commercial techniques which allow the presentation in the best material and psychological conditions of the product or service intended to be sold.”

In other words, “merchandising” can also be described as having the perfect products, at the perfect price, in the perfect place, at the perfect time thus determining the perfect sale through the perfect approach for the target customers of the shop.

Synthetically, we can say that “merchandising” is the art of selling based on the relationship between the customer and the seller which implies the utilization of very numerous and at the same time very diverse techniques. Selling is a complex act with multiple aspects: provisioning, exposition, information, which is carried on in well dimensioned and appropriately equipped commercial spaces, the commercial employees being asked to assure the success of this demanding operation by underlying the complex qualities of the merchandise.

The problem of merchandising contains three main aspects:

- the actual implementation of the selling point;
- the arrangement of the shop (its interior organizing);
- the esthetic display of the merchandise in the shop, the color, the light and the promoting at the selling place.

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The first aspect is meant to bring answers to certain questions such as – where will the commercial center be placed (in the center of the town or at its periphery?), how close to the consumer's house will it be situated?, will there be available parking spaces or not?, on how much space will the merchandise be displayed on?, will it be situated or not near a possible competitor?

According to these parameters, the attractiveness of the shop will vary in a very sensitive way. Specialists in marketing and especially American researchers, after some empirical research, have underlined the fact that two commercial units situated in vicinity of one another have an attraction force and a greater efficiency than if they were situated by themselves. This principle stands at the base of grouped evolving of the commercial endowments inside different malls.

Group placement of commercial units is advantageous not only for the retailers but also for the consumer, who has a wider possibility of choosing the merchandise, thus reducing the physical and nervous energy consumption necessary for shopping effectuation.

Through group development the cumulative attraction of commercial units situated in vicinity is created, which leads to reaching a higher selling level.

On the Romanian market, many international distribution companies are currently active, each having developed a chain of units according to their targeted sector of the market and the specifics of the respective group. A challenge for traditional commerce is constituted by the development of modern commerce forms on the background of the augment of the marketing struggle for occupying the available niches on the market and identifying new ones, as well as the quest of responsible authorities to realize the commercial equilibrium between the center of the city and the peripheral areas.

The attractiveness of a shop does not depend entirely on its emplacement. It varies according to its image, its interior and exterior design, with the practiced selling methods and with the services offered, including the type of products offered and the practiced prices.

The interior design of the shop, the product presentation, its wrapping, the atmosphere of the shop, the image of the shop, all these have an enormous impact on profitability.

The ideal situation is created when the avoidance of the three fluxes is created: the merchandise flux, the customers flux and the personnel flux, this ideal situation being usually met in large commercial centers.

The design of the shop refers to the style (atmosphere) which contributes to the creation of its image on the market. This includes exterior and interior elements (for example the shop window, the sign, the symbol, the coloring, the illumination, the floor, the equipment, the furniture and the commercial equipment).

Consumer's behavior in the shop is being researched more and more. Generally, the consumer always has a formed opinion on a shop in which the diversity of the products or the quality of the merchandise or the service

predominates. Customer's satisfaction is part of the general objective plan of a shop next to the maximization of sales and profits.

In the process of organizing the commercial-consumer relationships, a high emphasis is placed upon researches on consumer's reactions and the motivation of these reactions, in order to create the favorable background for the shopping decisions to be made.

The shopping decision represents an important part of consumer's behavior due to the fact that it is an act of resource allocation in which rational, economical and emotional-physiological motivations interfere.

Due to the fact that emotions play a higher and higher role in the decision-making process of shopping, it is observed that nowadays commercial companies try to organize certain commercial actions such as "shopping-show". These companies try to transform their shops in veritable attractions for the population, the idea of walking for shopping being determined by the new image of commercial units. An image of this type is created by assuring a specific ambiance for the assortment of commercialized merchandise, through artificial acclimatization processes, through water and lights games, like a veritable spectacle in which the consumer can enjoy the euphoria created by the acquisition of the wanted product.

These type of units use a super-qualified personnel and highly sophisticated services (providing specialized consulting, suggestions and recommendations, assuring assistance for children etc) In order to best stimulate consumers' emotions but also to differentiate themselves from the competitors, commercial companies are more and more preoccupied with the "personalization" of the offer.

Marketing specialists consider that there are four service categories which have to be developed in order to personalize the offer in a shop:

- The commitment (the functioning schedule, the absence of stock limitations in shop departments.)
- The pedagogy (demonstrations, tasting, shopping guides)
- The assistance (personnel availability, service)
- The comfort

A major component of commercial technology at the level of the shop, the display of merchandise plays a particular role in the overall efficiency of the shop. Having an extremely important promotional role, the displaying action is currently the beneficiary of a special attention coming from the entrepreneurs.

In a shop the display of merchandise can have three forms:

1. Closed – in a window shop or other piece of furniture (for jewelry and other highly expensive articles)
2. Opened – when the products are freely presented on the furniture in the selling room, customers having direct access to them (in case of self-service, free choice or model service etc)
3. architectural – decorative display

In the display process an extremely important step is constituted by the placement of merchandise on the specially designed furniture display which implies a previous determination of the exposure surface for each article, mainly according to its percentage in sales but also taking in consideration the minimum required space for each article.

Furthermore, the actual display of the merchandise assortment from each section on the furniture takes place, in this purpose an intercalated presentation of the fashionable, current and semi current articles being indicated.

The best usage of the display space is differentiated according to the height of the shelves (bottom and upper shelves are not as important as the ones which are situated at the height of the eyes and of the hands, which are more appealing to the customers).

In the case of self-service practice, the gondola constitutes the main furniture type from the selling point. The gondola heads must be used as much as possible for the special advertising of certain products.

The walls furniture is made up of closets, fridges (closed and semi opened fridges). Fridges must be grouped on a single part of the selling point in which all perishable products should be presented (milk based products, meat and products which contain meat, vegetables and fruits).

When it comes to merchandise display in the selling points, specialists take into consideration numerous other principles such as commodity's special characteristics, the wrapping style, the complexity of the assortment, the circulation speed and the consumption relationship with other goods.

A good merchandise display helps the customer pick and decide, thus favoring the sale. A light and inventive display which would suggest at only one glance as many merchandise qualities as possible, their variety and their abundance is highly recommended.

The light and the color are highly influential aesthetic factors. The light emphasizes the merchandise and the color could offer a relaxing background which is favorable in order to keep the customers focus on the merchandise. Light colors reflect more light that is why the color of commercial rooms should be as light as possible, in contrast to the main merchandise.

Moreover, the merchandise display in the shop window implies the combination of certain elements such as color, sets, space, light – in such a way that the result are as pleasant results as possible.

Being considered “the business card of the shop” the shop windows is a permanent offer, being considered an informatory for the passer-bys, it being a miniature of the shop as a whole, a true mirror of its organizing form. The window display must allow, during the day and at night, a good perception of all exhibited articles. The prices of the products must be displayed and lighted so that they can be read without any difficulty. The window should always be actualized, adapted to the season, expressive, attractive, containing original

ideas, the whole ensemble offering an equilibrium impression, art and good taste. That is why big commercial areas need specialized designers in order to arrange their windows and the merchandiser job knows an increasing appreciation all over the world, its essential role being the one of finding the best emplacement places for products, to visualize all emplacement places, to animate the presentation and selling process through the initiation of some practical demonstrations.

Next to the emplacement mode on the shelves and in the windows, the selling techniques used in shops are of a high importance in sales stimulation.

Promoting techniques can be initiated by the producer or by the distributor or can constitute conjugate operations which unite the two partners. The utilized techniques are very varied combining promotion techniques with sales, prices, coupons, lotteries, games and contest, demonstrations and tasting, promotional gifts etc

Publicity at the selling point is distinguished through the high variety in what concerns the ways of presenting the merchandise especially of the new merchandise, from graphic ones (such as posters, fliers, prospects, signs – general, floor, shop, assortment, merchandise and size) to audio ones (with the help of commercial personnel and audiovisual techniques)

Among the most efficient promoting techniques we can include exhibitions with sale, organized in shops, or catwalk presentations, practical demonstrations on how to utilize the merchandise (especially for electronic products), sampling, other supplementary services – before, during and after the sell of the merchandise.

The next table presents a list of main services which could be offered by shops, services which contribute substantially to the differentiation and to the promoting of the offer:

<b>Pre shopping Services</b>	<b>Post shopping Services</b>	<b>Auxiliary Services</b>
The acceptance of an order made by telephone	Home delivery	Accepting Checks
The acceptance of an order made by post	Wrapping	General Informations
Commercial	Wrapping for gift	Free parking
Window display of merchandise	Adjustments	Fixing
Inner display of merchandise	Giving back unsatisfying goods	Interior designs
Dressing Rooms	Adjustments	Credit sales
Overtime schedule	Adjustments	Rest rooms
Exchange of older products with newer ones	Installations, monograms engraving	Children surveillance services

Nowadays, merchandising or the art of selling deals with new challenges determined by the changes in the economical and social background. The passing from an industrial economy to a service based economy, together with market globalizing, the apparition and the development of electronic commerce, which challenges the classic commerce in many countries, and Internet as a channel for information and communication, all these led to great changes in the products and services consumer's behavior.

As an answer to all these changes, retailers and producers realized that they can obtain important changes if they unite their forces to hit and enchant consumers, designing business processes for the efficiency of both partners, sharing a common agreement of the consumption request collaborating in promotions in oared to raise the profitability of the sales, developing creative ideas and permanently innovating the design of the products and the selling techniques used.

Nowadays, we assist to the coexistence of classical selling forms with modern ones, interactive ones, in which the shopper might obtain consultations through the TV line or through the internet facility, consultations regarding the brand, the price, the quality, the way to be used, comparisons and, at his/her request at the assistance of some demonstrations. During the same process and through informatics techniques that commercializing system assures order-receiving, order processing in the shop, order honoring and the electronic receiving of the contra value of the merchandise. Doing business under a franchise constitutes an eloquent example of sustenance by producers of the distributors in the applications of efficient techniques specific to merchandising, this type of arrangements of commercial cooperation all through semi integration constituting the object of some contractual clauses in these cases.

No doubt that the social-economic contemporary dynamism will continuously produce spectacular leaps in the distribution and promotion techniques on the market of good and services and implicitly, in the arsenal of merchandising techniques.

Under the pressure of an increasing challenging environment, both producers and sellers must beneficiate as much as they can from the advantages that merchandising, as a tactical marketing element, provides.

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## THE SPECIFICS OF MARKETING MIX STRATEGIES IN TELEVISION

Elisabeta Andreea Budacia\*

### Abstract

*The concept of marketing mix was discovered by Neil Borden in 1964 and perfected by McCarthy in 1979. We notice the perspective of authors like Valerie Zeithaml, Mary Jo Bitner, Adrian Payne, Christopher Lovelock, Monique Lejeune and others who have gradually extended the concept. Starting from these aspects, regarding the services in the audiovisual domain, we'll take into account, on the one hand, the classical components of mix marketing, namely the product, the price, the investment and the promotion, and, on the other hand, concepts from modern theories such as the personnel (and especially celebrities and the anchor of the respective TV station), the viewer and the relation with the audience.*

### Keywords

*Marketing mix, marketing strategies, product policy, television*

### Introduction

The concept of marketing mix was discovered by Neil Borden in 1964 and perfected by McCarthy in 1979. The differentiation regarding products and distribution determined the extension of mix-marketing components. Therefore, we notice the perspective of authors like Valerie Zeithaml and Mary Jo Bitner, who extend the concept to seven components by adding the following: the human component (the personnel and the customer), the material support and the process of creation and delivery. Adrian Payne also uses seven elements but he replaces the material support with the relation with the customers. Christopher Lovelock has a modified variant of mix marketing; he proposes a unified approach of distribution and product and he separates the price from communications and customer services. Monique Lejeune considers that within the framework of services, a series of modified variables appear and adds three new components: ambience, personnel and customer. Eric Langeard and Pierre Eiglier consider mix marketing in terms of the supply of services, the communication policy, the price policy and the network marketing.

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Starting from these aspects, regarding the services in the audiovisual domain, we'll take into account, on the one hand, the classical components of mix marketing, namely the product, the price, the investment and the promotion, and, on the other hand, concepts from modern theories such as the personnel (and especially celebrities and the anchor of the respective TV station), the viewer and the relation with the audience.

## **1. The product policy**

Satisfying the viewers' needs is accomplished through the consumption of services which are created and offered by TV stations through a complex process that involves numerous human, material, financial and informational resources. The set of actions that a TV station takes in order to establish its objectives, choose its strategies, program and develop clear measures represents the product policy. In practice, it represents the behavior of the TV station in relation with the environment in which its activities take place regarding the dimensions, structure and evolution of the services which are in fact the objective of its activities.

The concept of product is defined as "the set of elements which trigger the demand expressed by the consumer"<sup>1</sup>. The approach to services imposes a proper perspective concerning the product, a perspective which is mirrored in the concepts of global product and unitary (partial) products. This aspect is present in the audiovisual services field.

The global product refers to the interaction between different components, to their effect and utility for the consumer/viewer. Basically, it refers to the actions through which utility is created. These actions take shape in a series of unitary products which are of several types: basic, auxiliary, supplementary and potential.

The basic product represents the result of the activities which generate utilities meant to satisfy a certain need; in the case of audiovisual services we refer especially to the need of information and entertainment (these are the most important functions of the Romanian televisions identified by viewers). Basically, in the audiovisual domain the main product is the TV show.

The auxiliary product is generated by activities without which the basic product couldn't exist or its quality would be affected in one way or another. In the case of services provided by TV stations, the quality of the broadcasting signal is an auxiliary product. Obviously, the signal quality influences the way in which viewers perceive a certain TV show.

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<sup>1</sup> Florescu C. (coordonator), *Marketing*, Ed. Marketer, București 1992

Supplementary products enhance the utility of the basic services and represent an important differentiating element with respect to competition. The price is not an issue on the Romanian audiovisual market where the only pay-TV station is HBO.

Potential products are generated by activities which ensure originality and are the expression of a high flexibility; usually, by paying, viewers receive personalized services which respond to individual needs different from the basic ones. In the audiovisual field, personalized services represent an impossibility because a television addresses to vast masses of people. However, the need of a certain separation appeared on the market and so, the specialized TV stations emerged.

The strategic objectives of the global product policy refer to several essential aspects: quality, productivity, differentiation and balance of market-oriented actions.

The quality of audiovisual services is essential; but who decides whether a TV show is good enough: the public or the producer? This is an up-to-date issue on the Romanian market given the fact that the audiovisual offer abounds in TV shows which promote bad taste and ignorance. The TV stations' excuse is that "this is what the public wants", but the public can be educated so that TV shows of this kind are left out and replaced by high quality ones.

Productivity in the audiovisual field can be measured through the market share which attracts the publicity budgets of enterprises, hence the TV stations' desire of having a high market share.

Being different from all the other competitors should represent a permanent objective of TV stations, given the fact that there is a high risk of imitation. In this sense, innovation is very important.

Certain strategies concerning the global product should be established in terms of the realization process of the respective service, the vision according to which this process is developed and its degree of complexity. Two main orientations can be noticed regarding the vision mentioned above: the product orientation and the market orientation. The former concerns aspects such as resource management and permanent quality enhancement of the TV shows. But quite often such an approach leads to "poor sighted marketing" which means remaining in the background of the viewers' needs. The latter centers around the consumer of audiovisual services and his/her needs. Unfortunately, this represents a frequent excuse of TV stations for the low level of quality of their TV shows. Reducing the complexity of a complete strategy means product orientation through low costs. Enhancing a strategy's complexity presupposes adding supplementary activities in order to increase the quality and to reach a certain differentiation from all other competitors.

**Table no.1: Strategic alternatives to the global product policy in the audiovisual domain**

Development of the TV production process	Characteristics of the TV production process	
	a) divergence degr	b) complexity degree
Market oriented (customer/viewer)	Low	Low
Product oriented (producer/TV station)	High	High

## 2. The price policy

Establishing prices, price competition and the way in which consumers perceive the respective prices represent an important issue.

On the Romanian audiovisual market, the price issue is practically inexistent because TV stations do not require taxes for broadcasting their TV shows. In Romania, the only pay-TV station is HBO.

The public television has been frequently blamed for the fact that, even though citizens pay an obligatory tax (with certain exceptions, of course), it still broadcasts publicity and therefore it has more access to financial resources.

Practically, the only price that Romanian viewers pay in order to have access to the TV shows broadcast by TV stations is 30 RON per month.

## 3. The distribution policy

According to the classical definition, distribution represents a set of activities which take place in a certain space and time that separate production from consumption<sup>1</sup>. The inseparability and intangibility of services might leave the impression that distribution is almost inexistent in this domain. In reality, the producer and the consumer are often separated in time and space; they may meet because of certain activities. Therefore, distribution represents a set of activities which take place in a certain space and time that separate the producer and the consumer<sup>2</sup>.

In the case of audiovisual services, the producer and the consumer can meet anytime without restrictions because the material support (the TV set) is present in the consumer's home. However, there are exceptional situations in which the encounter between the demand and the supply on the audiovisual market cannot take place; this may be the case of some cable firms or of the company Electrica.

<sup>1</sup> Florescu C. (coordonator), *Marketing*, Ed. Marketer, București 1992

<sup>2</sup> Olteanu V., *Marketingul serviciilor- o abordare managerială*, Ed. Ecomar, București, 2003

SNR is the company that makes the connection between the operators on the audiovisual market and the viewers or listeners. SNR is one of the main operators on the Romanian communication market. Its basic activity is to broadcast national programs on the radio and on television across the country. This company has recently changed its identity and it is now called Radiocom. The new visual identity aims to update the image of the company, making it more competitive on the communication market. Radiocom means 85 years of history and leadership on the Romanian broadcasting market.

In the case of services offered by TV stations, we cannot talk about the classical fluxes of distribution because here there is no actual sale and, implicitly, there are no negotiations, transactions, etc.

#### **4. The promotion policy**

As a variable of the mix marketing, the term of “promotion” suggests the set of activities that impulse the penetration of products/services on the market and in consumption and that stimulate sales<sup>1</sup>. The characteristics of services can change the activities of promotion. Hence, a series of elements which strongly influence the promotion activity emerge, because it is very difficult to present an intangible offer and which may vary between the moment of promotion and the moment in which the respective offer comes into force. Some of these elements are: exterior elements (landscape, architecture, geographical position, etc.), interior elements (ambience, personnel, etc.), symbols and interpersonal relations.

Given the fact that the offer on the Romanian market increased very much, the services offered by companies in the audiovisual field depend on the promotion activity. The viewers’ perception of the TV station and its programs has the most important role in the promotion activity.

A television’s communication system represents the main focus in order to achieve success on the market; the most important elements are the physical aspects, the other environments and the personnel.

The communication realized by a TV station should be conceptually well organized in terms of its two components: internal and external communication. The former refers to communication within the respective television and among its employees. The latter refers to visual symbols, public relations and especially to the media and even to the external architecture.

Any TV station should have some strategic objectives regarding its promotional activity. The general objective of a TV station is to obtain a high market share in order to attract the publicity budgets of powerful companies.

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<sup>1</sup> Florescu C. (coordonator), *Marketing*, Ed. Marketer, București 1992

Strategic alternatives of the promotion policy in the case of audiovisual services refer to some main aspects such as: offer, demand variability, the role of the promotion activity and the way in which it is developed in time. The offer, viewed as a differentiating element of the promotion strategies, refers to the manner in which the program offer of a TV station is tackled within the framework of the promotion program. Therefore, we distinguish: the strategy of the general offer (used especially in autumn and spring – the two moments when TV stations put forward their new program offers) and the strategy of promoting only certain TV shows (this strategy is more frequent because the message is more easily conceived). Demand variability is visible on the audiovisual market, given the fact that during summer the market share decreases. Depending on the evolution of the demand, the TV stations' offer changes accordingly. The role of the promotion activity is more obvious on a highly competitive market. The offensive strategy is typical of powerful TV stations which have large budgets and use diverse methods, techniques and instruments for a better promotion which often becomes aggressive. The defensive strategy is used by those who wish to maintain a certain level on the market or in certain circumstances like the apparition of a new competitor. The way in which the promotion activity develops in time is another differentiating criterion. A permanent promotion activity is difficult and expensive not only for the TV station but also for the viewer who feels annoyed by so many messages. The intermittent strategy takes into account seasonal phenomena, certain circumstances and the evolution of the market share.

**Table no. 2: Strategic alternatives in the promotion policy of television companies**

<b>Offer</b>	<b>Demand variability</b>	<b>The role of the promotional activity</b>	<b>Development in time</b>
- general offer promotion strategy	- temporary differentiation strategy	- offensive strategy	- permanent promotion activity strategy
- promotion of certain TV shows strategy	- temporary undifferentiating strategy	- defensive strategy	- intermittent promotion activity strategy

## **5. Celebrity marketing**

Philip Kotler remarks the importance of personnel particularly in the domain of services. The success of a company of services depends on the quality

of its staff. In the case of companies in the audiovisual domain this aspect is even more conspicuous. The quality of the staff's activity determines the quality of the audiovisual services. Primarily, we should take into account the personnel that comes in direct contact with the public, those persons who host TV shows and are considered to be "celebrities". Certainly, the quality of the TV shows does not depend only on the evolution of these celebrities, because, behind the scenes, many others contribute to their success. TV stars are important for a TV station because they usually represent the respective TV show and TV station and because they "sell". A clear and well organized personnel policy is an important element for the success of a TV station. In order to achieve the best results, a television company has to take into account certain aspects such as: selecting and hiring the most competent candidates, permanent training of the staff, forming work teams on the basis of clear criteria, encouraging initiatives and creativity, communication on a formal and on an informal level.

The success on the audiovisual market is the result of team work. So, those who form a team share certain attitudes, feelings, values, abilities and objectives. Cooperation should be based on good communication and trust. The team does not presuppose uniformity; it joins together individuals in order to create a whole which is better than the component parts. Team work is very important for the quality of the audiovisual offer.

Viewers have a direct contact with the hosts of TV shows; quite often they are also the producers of the respective TV shows. Hence, the concept of television celebrity emerged. These kinds of persons are famous and have won the public's sympathy; this is why TV stations invest large sums in the image of celebrities. The main instruments that are used are those of public relations such as: the article, the press conference, sites and special events. TV channels capitalize on the celebrities' notoriety and try to find new TV celebrities. The image of such persons is difficult to build but important because the public identifies with the qualities of these persons. This is why the moral aspect of the problem is also of great importance. Young people usually try to imitate the models offered by television and unfortunately they sometimes imitate false models.

Every TV station has the qualified personnel to handle the celebrities' PR problems. In this sense the relation with the media is vital in order to convince journalists to write positive things about the respective channel's stars. There are situations in which the work contract of a public person interdicts apparitions at events which are organized by rival TV stations or press interviews. Celebrities are also promoted on the internet.

The first who have created a real cult for TV celebrities are from the PRO trust. They have created the first anchor on the Romanian audiovisual market, namely Andreea Esca. An anchor is TV celebrity who is associated with the TV station that he/she represents. In order to maintain his/her notoriety the

respective person's behavior has to be flawless. The anchor participates at important events and is involved in image campaigns. TVR also has an anchor, namely Andreea Marin. Antena 1 did not apply the same strategy, but tried to build the image of TV couples such as: Radu Coșarcă- Mona Nicolici, Alessandra Stoicescu – Lucian Mândruță, Andreea Berecleanu- Andrei Zaharescu.

To sum up, let us mention the main strategies applied by TV stations concerning their celebrities:

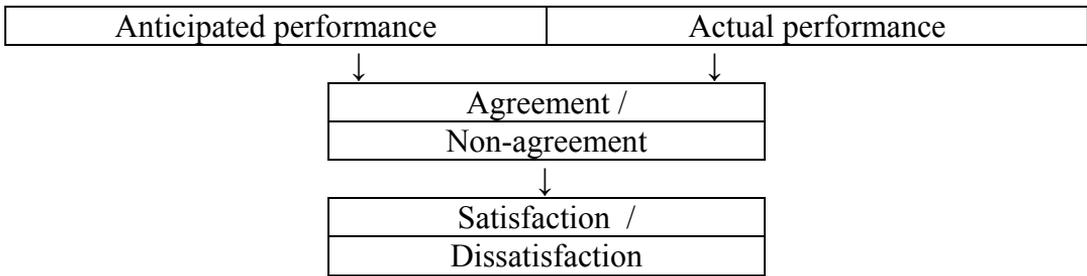
- The anchor (or the main celebrity) strategy: a television concentrates its efforts in order to promote a single celebrity so that the public associates with the respective television;
- The anchor and other celebrities strategy: the television promotes the anchor but also encourages other celebrities;
- The TV couples strategy: those who form a couple on TV do not necessarily form a couple in real life, but the main idea is that the two persons have to complete each other;
- The celebrity building strategy depending on several domains: news, sports, weather, etc.; specialists try to build the image of many celebrities who have to represent the respective TV channel.

## **6. The viewers and their needs. The TV channel – public relation**

According to the marketing viewpoint, the whole process of offer realization should be based on the viewers' needs. An anticipative analysis should take into account the following aspects: the consumer's level of satisfaction or dissatisfaction, the consumer's behavior towards the media product, the contact with the product and developing a sense of fidelity towards the TV shows of the respective TV channel.

Satisfaction or dissatisfaction – generally, it is thought that if a consumer is satisfied with the audiovisual services, then he/she will continue to watch the respective TV shows and, moreover, he/she will share his/her positive experience with other consumers. If a consumer is not satisfied, then he/she will change the product and the respective TV channel. Satisfying the viewers' needs is the main objective of a TV station; permanent research takes place in order to identify the public's preferences.

**Table no. 3: Model for satisfying the audiovisual consumer**



The non-agreement between expectations and actual performance can be:

- Positive – when the actual performance is better than what is expected;
- Negative – when the actual performance does not raise to the consumer’s expectations and generates the consumer’s dissatisfaction;
- Neutral – when the actual performance is the same as the anticipated performance.

Research regarding the audiovisual consumer’s dissatisfaction and his/her reactions lead to the following conclusions:

- Dissatisfied consumers come from upper social classes;
- There is no obvious connection between the consumer’s personality and his/her dissatisfaction;
- The consumer’s complaints are more and more intense depending on the level of dissatisfaction;
- If the TV station is interested in the consumer’s feedback, the probability of complaints increases;
- When the dissatisfaction is not the consumer’s fault, the probability of complaints increases;

The audiovisual consumer’s behavior towards the proposed offer refers to the contact between the viewer and the proposed TV shows. The contact may be direct (the respective person watches a certain TV shows) or indirect (friends, neighbors, media, etc.).

Another important aspect is the viewers’ fidelity towards TV brands. Nowadays, under the influence of certain factors such as the offer’s variety, information about offers, similarities between audiovisual offers and time pressure, the consumer’s fidelity towards a certain brand decreased.

A viewer is loyal to a certain TV show if he watches it repeatedly and he/she is convinced of its value. Brand fidelity in the audiovisual field represents the consumer’s inner commitment to watch a certain TV show repeatedly.

Fidelity differs from repeated watching; the latter refers to a mere manifestation and lacks motivation.

The characteristics of the audiovisual product can influence the viewer's behavior, such as:

- Compatibility – represents the way in which the audiovisual product corresponds to the consumer's beliefs and system of values;
- Advantages for the consumer – the consumer receives certain advantages which influence him/her to watch the respective TV show;
- The relative advantage – represents the fact that a certain TV show has a major competitive advantage in relation to other similar TV shows; this relative advantage is an important characteristic which determines whether the viewer will watch or not the respective TV show or even watch it again and so, becoming loyal to its brand;
- Symbolism includes the significance of the audiovisual product for the consumer and his/her experience in watching the respective product; research shows that watching certain TV shows actually depends more on their social and psychological significance than on their real utility.

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## FUEL PRICES AND CAR SALES

Vlad Cârstea\*

### Abstract

*Automotive industry is a very important economic sector that is highly responsive to changes in the world economy. The fuel price is the biggest enemy of car manufacturers. This is a compared analysis between Europe and Romania regarding new car registrations.*

### Keywords

*Automotive industry, fuel price, car sales*

Throughout the last two years we all witnessed the biggest rising of oil prices from history, reaching a value of 136,11\$ for a barrel, dropping from 146,9\$. An OPEC official predicted in an interview that the oil prices will reach 200\$/barrel in the next two or three years and if Iran will be attacked because its nuclear program, the prices could go up to 500\$ /barrel.

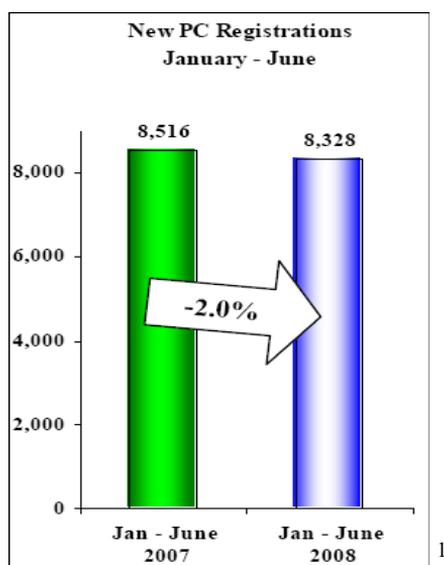
The effects of these prices were felt in all the economic branches like the food industry, energy supply, transportation, but mostly in the automotive industry. This sector is highly responsive to these changes, and they were reflected by losses in sales figures.

According to ACEA (European Automobile Manufacturers Association) in Europe<sup>1</sup> the passenger cars registrations fell 2,0 % from the beginning of 2008, compared with the same period in 2007. This diminution is not only the result of fuel prices but also the result of inflation.

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<sup>1</sup> EU27 + EFTA without Malta and Cyprus



Regarding the new EU Member States, except Latvia, Estonia and Hungary, all the other states registered a growth in the first six months of 2008, which translates into a 6,9% growth for the whole region. The losses in the three Eastern countries mentioned earlier were quite important, Latvia registered 32,2% losses, Estonia 11,2% and Hungary 2,2%.

Poland and Romania were the engine of the region when it comes to new passenger car registrations with about 320,000 cars put in use.

Luna/An	2008	2007	Variatie
January	6 429	5 429	18.4%
February	7 761	6 494	19.5%
March	7 135	9 793	-27.1%
April	6 872	8 591	-20.0%
May	7 073	14 606	-51.6%
June	10 472	12 183	-14.0%
July	-	11 782	-
August	-	6 743	-
September	-	6 945	-
October	-	9 774	-
November	-	10 328	-
December	-	8 234	-
<b>Total</b>	<b>45 742</b>	<b>57 096</b>	<b>-19.9%</b>

2

<sup>1</sup> Source : ACEA

<sup>2</sup> Source: APIA

In Romania the domestic cars recorded losses from March 2008 until present with an overall loss of 19,9% compared with the same period in 2007. Every month the figures dropped with an average of 20% with a top of 51,6% in May.

The import cars were better perceived by the Romanian public, with 11,3% growth for the first six months of 2008, and a top of 49,3% in January.

### Top vanzari autoturisme import - marci

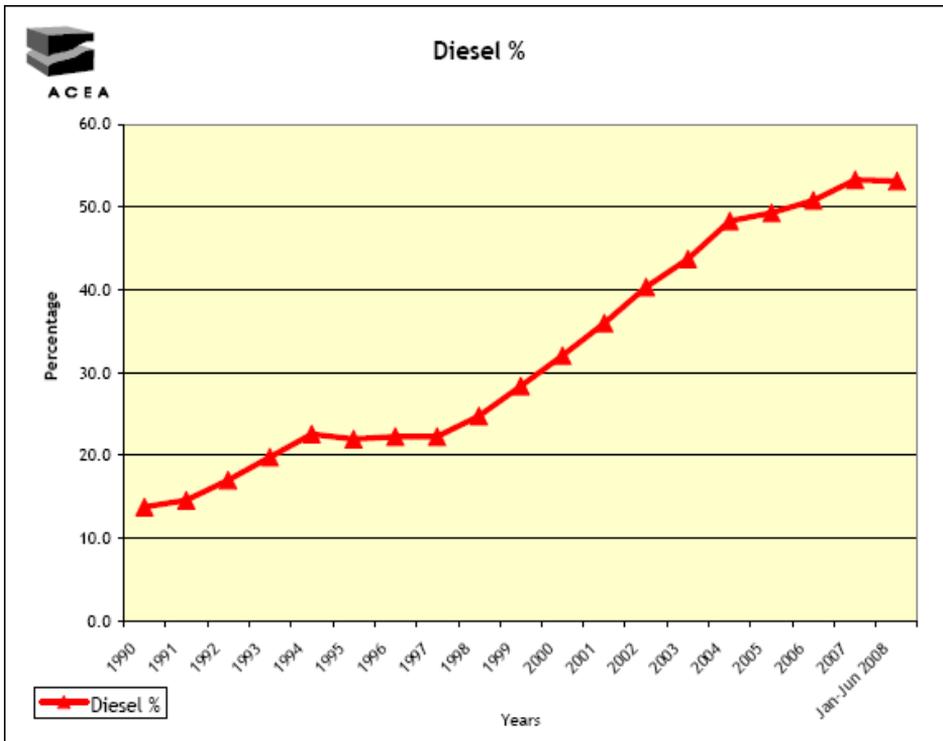
MARCA	Iunie		Variație Mai		6 luni 2008		Variație 2007	
	poziție	unitati	poziție	procent	poziție	unitati	poziție	procent
SKODA	2	2393	1 ↗	13.8%	1	12713	2 ↗	12.0%
RENAULT	1	2497	3 ↗	65.1%	2	10923	1 ↘	-21.1%
VOLKSWAGEN	3	2079	2 ↗	23.6%	3	10149	3 ↘	-2.3%
FORD	4	1961	4 ↗	29.9%	4	9350	6 ↗	47.2%
OPEL	5	1668	5 ↗	29.2%	5	8962	4 ↗	16.7%
HYUNDAI	7	1379	6 ↗	21.0%	6	6015	8 ↗	11.3%
PEUGEOT	6	1394	7 ↗	27.7%	7	5954	5 ↘	-8.1%
CHEVROLET	9	1091	8 ↗	15.1%	8	5362	7 ↘	-12.3%
TOYOTA	10	893	9 ↗	6.1%	9	4978	9 ↗	21.9%
FIAT	8	1199	11 ↗	98.2%	10	4469	10 ↗	10.0%
Rest		3904		6.5%		20371		51.5%
<b>TOTAL</b>		<b>20458</b>		<b>24.8%</b>		<b>99246</b>		<b>11.3%</b>

Dacia is the best sold car brand in Romania having a market share of 27,9%. The national car is a success in the Western Europe as well, after gaining a market share of 37,5%, which means that 45,253 cars were sold.

The next car manufacturer that has an important market share is Skoda, that had a 12% growth compared with the same period of 2007. Renault that got the 2<sup>nd</sup>, had a 21,1% loss, and Volkswagen, that also recorded a loss of 2,3%.

Things will change a little if we look at the sales recorded by the car models. On the first position we find Renault Clio, the French representative in the small class category, followed by Skoda Octavia and Ford Focus. Ford's compact car had the biggest rising, coming from the 13<sup>th</sup> place to 3<sup>rd</sup> place. This could be the result of the new facelift that was done recently.

<sup>1</sup> Source: APIA



1

Besides the growth recorded by the Romania's car market, another thing that differentiates it from the Western European countries is Romanian's preference for cars with petrol engines rather than diesel engines. In Western Europe 58% of the new passenger cars registered from January until June 2008, were equipped with this type of engine, while in Romania, 59,8% were cars with petrol engines. The explanation could be the sum of a few factors, like:

- the diesel cars are more expensive than the same car but with a petrol engine and higher maintenance costs;
- the price of diesel fuel which is just a bit higher; Romanians are very sensitive when it comes to their family budgets;
- the noise made by these types of engines that are often associated with the older diesel engines that were loud and were underpowered.

On the other hand, in Western Europe, the sales for diesel cars are on a growing trend since 1998. This success lead to a continuously improved technology for these engines, that made them more economical, more powerful and why not quieter than before.

An aspect which Western Europeans care about is preserving the environment. Despite most opinions, diesel engines are actually less pollutant than petrol engines, and today's technology make them even cleaner.

<sup>1</sup> Source: ACEA

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**REFLECTIONS ON THE STATE OF GLOBALIZATION AND  
REGIONAL INTEGRATION AT THE BEGINNING OF THE NEW  
MILENIUM**

Marcel Moldoveanu\*

Abstract

*World trends at the beginning of a new millenium requires, undoubtedly, a new (theoretic and practical) approach of the phenomenon of globalization and regional integration. It is increasingly clear that the world is tending toward a multipolar system, with three main world centers – USA, Europe and Japan, and new actors manifesting a regional and global vocation – China and Russia, and, in a not so distant future, India and Brazil. A fundamental condition for revitalizing the world economy is the intensification of international cooperation, by associating national efforts with international technological and financial assistance.*

Keywords

*Globalization, integration, regionalism, cooperation, development*

World trends at the beginning of a new millenium requires, undoubtedly, a new (theoretic and practical) approach of the phenomenon of globalization and regional integration, in the context of a growing interdependence among its various dimensions: economic, political and cultural.

The intensification and liberalization of trade and investment flows, the informational and technological boom, the internationalization of production – in the context of a growing role of multinational corporations in the world economy, the higher emphasis on ecological aspects of development and the reconversion of the huge military potential toward development projects (intended to reduce development gaps among states) are essential features of globalization.

Globalization and regional integration generate a new architecture of international political and economic relations, which is pointed out by the fast and deep changes occurring on the main geoeconomic and strategic areas: American, European, Asian, African and Middle East, former Sovietic.

It is increasingly clear that the world is tending toward a multipolar system, with three main world centers – USA, Europe and Japan, and new actors

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manifesting a regional and global vocation – China and Russia, and, in a not so distant future, India and Brazil.

These big powers could establish the „rules of the game”, according to which the dominant economies become the central pillar, and the developing countries and those in a „perpetual transition”, who lack decision power will gravitate around it.

This is the explanation for „resistance to globalization” – which occurs not only in developing countries (from Africa, Asia and Latin America) but also in some OCDE states. There are rightly mentioned social acute problems (unemployment, income disparities).

The superiority of the „first world” (focused on production and marketing of high technology products) in the context of globalization – according to some analysts – does not derive from its level of industrialization, based on its scientific and technological monopoly, but from its possibility to use the major financial resources (through World Bank and IMF) and, implicitly, to manage international financial flows.

A fundamental condition for revitalizing the world economy is the intensification of international cooperation, by associating national efforts with international technological and financial assistance.

In this context, it is important for UN – as a reflection place for finding solutions for the main problems plaguing the world (economic growth, eliminating development gaps and sustainable development) – to function in a dynamic way, by changing its policies and a better definition of its responsibilities.

As far as the harmonization of alternatives is concerned, we can point out the international debate on global issues taking place within the World Economic Forum at Davos (January 2007) and the World Social Forum at Nairobi (January 2007)

An interesting element of reflection concerns the notion of „altermondialism”, which shapes the vision of „another possible world”, governed by more efficient international institutions (IMF, World Bank, WTO and others).

The economic and institutional construction of regional integration organizations has to reject the fear that regional and subregional agreements could restrict international economic relations to „closed regional blocks”, which affects the essence of the process of globalization. The development of integration process in Latin America, Asia, Africa and Middle East remains constrained by the political stability and global and regional security.

One of the most important geoeconomic and strategic areas in the world in the XXI century will be the Asia-Pacific region, characterized by economic dynamism, structural reforms and the boom of trade, investment and technology flows. AFEC meetings emphasize the importance of promoting the notion of

„open regionalism”, through better export performance, more prudent fiscal and monetary policies, stimulating competition and directing investments toward priority projects. Moreover, according to the concept of „competition liberalization” we see the initiative of the so-called East Asian Vision Group concerning the extension of East Asian community to ASEAN + 3 (China, Japan, South Korea).

In a world of global interdependencies, it is imperative for Europe to play a more important role in the global „geostrategic balance”, through an open diplomacy, in order to lead to a more efficient solution for the problems of the new millennium. According to this view, European Union should focus on economic, technical and financial cooperation with the former Yugoslavian and Sovietic countries, to enhance the process of reform and democratization, as economic and political foundation for maintaining regional security.

The cooperation with Russia, which includes the harmonization of actions in economic and financial relations, becomes more important today, in the context of the significant energy dependence of EU on the Russian oil and gas resources.

A very relevant element for attracting African and Middle East countries in the process of economic cooperation is represented by the institutionalized dialogue within the Euro-Mediterranean Partnership, which should take into account the peculiarities concerning the language, culture, economic and social traditions of each member country.

The Euro-Mediterranean conference in Barcelona (1995) and recent Lisbon Conference (December 2007) of EU and African states represent the peak of a long process of rethinking inter-regional cooperation, by harmonizing positions and the efficiency of common priority projects.

In the context of a deepening of economic and political interdependencies at a global scale, it appears a more profound understanding of the cooperation between European Union and USA, a revigoration of the Transatlantic Economic Partnership in order to consolidate – in a global competition climate – the process of mutual trade and capital liberalization, with a view to enhance informational and technological flows, in order to achieve a Transatlantic market without barriers.





