ROMANIAN ECONOMIC AND BUSINESS REVIEW

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TRENDS IN LABOR MIGRATION'S REGULATION IN THE EUROPEAN UNION

Florin Bonciu*

Abstract

The paper analyzes the recent developments in labor migration regulation in the EU and its implications for Romania as a EU member country. The new regulations will affect both Romanian economy and Romanian education system and in order to minimize these effects adequate measures have to be initiated as soon as possible.

Overview of the current situation

According to data published on 1 June by Eurostat, the jobless rate in the EU stood at 7.1% in April 2007 – representing nearly a full percentage point drop since last year and bringing unemployment in Europe down to its lowest level for more than 15 years.

In 2006, 2 million new jobs were created and, based on the continent's booming growth rates, the Commission has predicted that another 5.5 million jobs will be created in 2007 and 2008.

However, amid these positive developments, a dilemma lurks for Europe's businesses and leaders: that of finding people to fill all these new vacancies and keep the economy surging forward.

Europe's declining population, the ageing of its workforce and its lack of qualified personnel mean that labour shortage, which is severely limiting the innovation capacity of those high-tech companies leading the economic revival, is fast becoming one of the largest constraints to the continent's competitiveness.

By mid 2007 there were around three million unfilled jobs in Europe, according to Commission figures. While the problem has traditionally been linked to low-skilled jobs, filling jobs in high-skill sectors, such as engineering, is also becoming increasingly troublesome.

This is particularly true in Europe's largest economy, Germany, where vacancies for engineers rose by nearly 30% over the past year to around 23,000.

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According to a study by the Institute for the German Economy, the cost of these missing personnel can be estimated at around €3.5 billion per year.

Recently, German engineering conglomerate Siemens AG offered a prize of €3,000 to anyone who can help the company recruit an engineer, as it struggles to deal with an overflowing order book.

This situation reveals the severity of Europe's skilled-labour shortage, a problem also common to the information technology sector, which contributes more than 5% of the EU's GDP, but where it is expected that that there will be a shortage of 300,000 qualified staff by 2010.

Therefore, from the point of view of labor situation, at the beginning of the 21st century, Europe is facing a double challenge.

On the one hand demographic developments which will mean that according to projections, by 2050 two workers will have to pay for the lívelihood of one retired person (compared with four workers today). Higher birthrates, which the EU and its member states attempt to bring about through a whole array of policies, can mitigate this development, but not counteract it completely. This situation is aggravated by the fact that an increasingly competitive global economy in which economic growth will depend on productivity growth after 2020. As a result, a growing number of highly-skilled workers will be needed. However, many European countries have problems training children and young adults for the challenges of tomorrow's professional lives.

On the other hand, restrictive immigration laws prevent European companies from hiring the staff that they urgently need from abroad. Some countries even train students in highly sought-after engineering sciences and then force them to leave the country once they have finished their studies.

The size of the challenge

The Commission has calculated that the EU needs an extra twenty million immigrants, both high-skilled and low-skilled, over the next twenty years. It therefore proposes that member states stop to concentrate on blocking access to foreigners and open their borders for regulated, legal immigration instead.

In this context, Justice Commissioner Franco Frattini said that the EU has to learn to compete with the US, which thus far attracts most of the skilled labour in the world, while labour immigants to the EU tend to be mostly unskilled.

In the same context Portugal’s employment state secretary, Fernando Medina, said that he supports a "realistic" approach to immigration policy, during his country EU Presidency.

Such a policy should be based on four pillars:

- A realistic approach to legal migration, which places the emphasis on economic migration. "If we try to be too restrictive on legal migration, this is not a realistic approach," the Portuguese state secretary said.
- Social inclusion policies, which address "how people work and live in the country" as well as their working conditions.
- An effective border policy, to control the influx of legal and illegal immigrants. "There is no use having a very tight immigration system if we don't have an effective border control system.'
- Development policy, namely co-operation with African countries that make up the bulk of economic migration to Europe, a problem Medina said will "obviously going to continue and to put pressure on our system".

Recognizing the importance of the problem, the Commission will propose, in October 2007, a legal package consisting of:

- a framework directive on the rights of legal imigrants;
- a directive on highly-skilled immigrant workers (the so-called 'Blue Card' proposal);
- a directive on seasonal workers;
- a directive on inner-company transferes, and;
- a directive on paid trainees.

One problem (labor): two solutions

Given this labor shortage problem is facing two solutions, namely encourage active ageing and opening to foreign workers.

1. Encouraging ‘active ageing’

Firms, which in the lean years had been sending older employees into early retirement, are now finding that their only option is to rehire these 'silver workers' in order to fill their staffing gaps.

With 22% of the EU population already over 60 and this share expected to rise to 36% in 2050, companies will have to rely on senior workers even more in the future and the EU is pushing forward policies aimed at keeping people in the workplace for longer.

Bans on age discrimination, a focus on lifelong training and encouraging more flexible work schedules are part of efforts being undertaken at this level.

2. Opening to foreign workers

Getting Europe's workforce to work longer will not be enough to solve Europe's manpower problem.

The EU has recognised the role of labour mobility and migration in overcoming bottlenecks on the labour market, but, so far, European voters have been reluctant to espouse these options, be it through Europe's enlargement, Turkey's membership in the EU or more liberal immigration rules.

Older member states including Germany are still holding back from letting in workers from the ten countries that joined the EU three-and-a-half years ago, despite the drastic shortages of workers in numerous sectors.

However, reports from countries such as Britain, which have opened their doors to workers from the new member states, show that immigration of high-skilled, low-cost workforce from these countries has helped companies to better compete in the global economy.

The risk of postponing the making of a decision concerning labor situation is very high. More and more companies are already leaving Europe behind to expand in countries such as China, with lower labour costs and stronger demand. If the supply of engineers does not pick up, this trend could continue, gradually eating away at Europe's 'critical mass' on the world stage.

EU Employment Commissioner Vladimír Špidla believes that free movement of workers can contribute to tackling unemployment and labour shortages in Europe. "It must be recognised that the absence of a mobility culture in Europe has a cost," he said, adding: "Free movement of workers is economically rational and is enshrined in EU treaties. We have not seen any catastrophic tendencies since enlargement." On the contrary, he stresses, imposing restrictions had led to "undesirable side-effects, such as higher levels of undeclared work".

Herbert Buscher, economist at the Halle Institute for Economic Research (IWH) concurs, saying that Germany, has "shot itself in the foot with its restriction to the free movement of workers".

Director of the Association of German Engineers (VDI), Dr Willi Fuchs, says that he does not expect any improvement, given that the number of engineer students is stagnating, and believes that policies should focus on the young generation and schools. "There is an image problem with the engineering profession…Young people still imagine that engineers are people working in blue overalls and spend the whole day in the middle of machines," said Michael Schwartz, spokesman for VDI, adding: "Now, people just want to consume technology."

Mixed reations to the Commission initiatives

The idea to adopt a US immigration policy is not equally accepted by all European leaders. As result there are a variety of positions such as:

Commission President José Manuel Barroso: "Migration is one of the great issues of our age. The Commission has a clear twin-track strategy. Encourage legal migration that is beneficial to migrants, to their countries of origin and to Europe. Clamp down on illegal migration. We will bring forward two proposed Directives on labour immigration in October, complementing the proposal already put forward on sanctions against those who employ illegal migrants."

Employment and Social Affairs Commissioner Vladimír Špidla: "I am strongly convinced: Today's Europe has no choice between a future with or without immigration. The only choice it has is between an immigration that is well or badly managed. (...) The European Union is developing an ambitious and balanced policy on immigration and integration. In my point of view, it is necessary to master the immigration and integration of migrants from a social cohesion point of view, which is, I would say, the one value that distinguishes Europe from the other great Western civilisations."

Justice, Freedom and Security Commissioner Franco Frattini: "Countries with rapid economic growth in recent years, such as Spain and Ireland, have clearly benefited from the in-flow of skilled workers from both within and outside the EU. Across the EU all skill levels are required. The challenge is to attract the workers needed to fill specific gaps. Working together makes the EU stronger not just when dealing with problems such as illegal migration and border management, but also in seizing the opportunities which migrants embody. Common action at EU level also gives member states a stronger voice on the international stage, bearing in mind that there is competition between different countries and regions of the world for skilled migrants, especially with high qualifications."

German Minister of the Economy Michael Glos (CSU; Bavarian Christian-Conservative) rejected the Commission's proposals immediately after their presentation. He declared that Germany could not "get masses of foreign workers just because we need them for the time being", and added: "That would be equal to opening and closing a water tap." Glos pointed out that "there is a large reservoir of unused labour in Germany". Politicians from the other parties who are partners in Angela Merkel's government - the Social Democrats and Merkel's Christian Democrats - argued along the same lines.

UK Green MEP Jean Lambert: "The new shift in emphasis by Justice Commissioner Frattini to focus EU policy on legal migration and integration is most welcome. The EU needs immigration and we should not be afraid to say so, as Commissioner Frattini has done this week. We have much to gain culturally, socially and economically from adopting a more coherent EU-level approach to immigration and the proposed 'blue card' is certainly one positive initiative to this end. However, a successful immigration policy does not just stop once the visa is issued: a comprehensive approach, dealing with the integration of immigrant communities is crucial. To this end, we particularly welcome the focus of the Commission on participation and citizenship, as well as on preventing alienation and discrimination against immigrants."

Bashy Quraishy, President of the European Network Against Racism (ENAR): "Although in principle every person in the EU is entitled to equal treatment regardless of his or her legal status, the reality in most EU countries is that migrants and their descendents increasingly face racism and discrimination. ENAR is seriously concerned about the lack of respect for the rights of third country nationals. EU policy and decision makers present at the conference must find solutions to reverse this situation and urge EU leaders to live up to their commitment to fundamental rights."

The position of Romania as a EU member country

Romania is also facing more and more a labor problem as it has both the demographical decline situation and a fast relocation of labor towards Western Europe.

Under the circumstances Romania has to adopt and support the EU position (that is combine active ageing and opening to foreign/non-EU workers) and to do some specific things related to Romanian environment like:

- bringing into industrial and service sector activities people from rural areas;
- improve vocational education and active measures for re-qualification in order to speed up labor mobility;
- capitalize on its historical links with other neighbouring areas (like Republic of Moldova) or with countries that used to be traditional trade partners (like China).

In our opinion Romania should be a supporter of the recent initiatives of the EU Commission as they seem to be in line with its interests. Also Romania may benefit by a higher speed of reaction as a number of social structures as less conservative or less strong that in Western Europe.

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THE RETAIL MARKET AROUND THE WORLD

Oana Preda[*] and *Costel Negricea*[°]

Abstract

The global economy has continued to perform reasonably well, lifting retail sales and profitability. However, heightened concern about the growing risks facing retailers is changing the management agenda from one of managing for profitable growth to one of managing and mitigating risk. There is growing awareness among senior management and corporate directors in the retail industry - whose risk management agendas heretofore have been focused primarily on financial integrity issues - of the non-financial risks confronting their organizations.

The paper presents the situation on the global retail industry based on the last year's dates and prediction its course in the near future. The studied markets are: North America, Europe, Latin America, Asia/Pacific, Africa/Middle East. The global economy has emerged from its doldrums, which has put more money in consumers' pockets. Profitability and cash positions have risen. Investments in technology are beginning to pay off. Various international markets are showing increasing signs of promise. Competition remains intense in the industry, but the successful industry players have developed the focused strategies that are allowing them to flourish.

The globalisation process has contributed to a growing risk of "commonality." Despite a mandate for innovation from growth-minded players, retail strategies are becoming increasingly convergent. As continued expansion places retailers in head-to-head battles in more markets, competition for market share has become almost exclusively price-oriented in many sectors of the industry. A lack of clear differentiation in merchandise assortments, service levels, and marketing messages creates commercial risk by positioning many retailers as product distributors, rather than distinctive concepts targeted to specific customer segments.

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Competition among retailers has never been tougher. A retailer without a significant competitive advantage doesn't stand a chance. Superstores are battling each other on every major corner while direct marketers (including catalogs and online sites) are stealing customers from stores[1].

The paper presents the situation on the global retail industry based on the last year's dates and prediction its course in the near future. The studied markets are: North America, Europe, Latin America, Asia/Pacific, Africa/Middle East. The global economy has emerged from its doldrums, which has put more money in consumers' pockets. Profitability and cash positions have risen. Investments in technology are beginning to pay off. Various international markets are showing increasing signs of promise. Competition remains intense in the industry, but the successful industry players have developed the focused strategies that are allowing them to flourish.

The global retail industry's improved financial position is allowing numerous companies to solidify their standings in the rankings. No one, however, is standing still. The steady flow of recent announcements on exciting new technology, deployments, merger activity and expanded global positioning suggest that the industry is just beginning to fire up and that even more exciting times lie ahead.

Positive forces in the retail market today include:

- Relatively low interest rates
- Easy availability of consumer credit
- A very strong job market coupled with low unemployment rates
- Moderate inflation
- A relatively low personal savings rate (indicating a willingness to spend rather than save)
- Higher stock market and personal investment values

Negative factors in the retail market today include:

- High consumer debt levels
- Higher health care costs for consumers
- Global terrorism, tension and uncertainty
- Consumers burdened with much higher energy costs including gasoline, home heating fuel, natural gas rates and electricity rates
- A slowdown in the housing market.

Compared with last year's Top 10, the top 6 retailers remained in the same positions in 2005, with only minor changes occurring in the bottom half of the list.

[1] Delloite – 2007 Global powers of retailing

Table 1: Global Top 10 retail leaders(2005)

No	Company	Retail sales (US$ billions)	Country of origin
1.	Wal-Mart	312,4	USA
2.	Carrefour	92,8	France
3.	Home Depot	81,5	USA
4.	Metro	69,1	Germany
5.	Tesco	68,9	UK
6.	Kroger	60,6	USA
7.	Target	52,6	USA
8.	Costco	51,9	USA
9.	Sears Holdings	49,1	USA
10.	Schwartz	45,9	Germany

[2]Source: Planet Retail

Wal-Mart has remained the undisputed leader in the retail world. Carrefour has maintained the #2 spot for 6 consecutive years, having risen from #8 in 1996. Home Depot captured its current 3rd place ranking in 2002, rising rapidly over the preceding years. Metro, #4 ten years ago, dropped to 6th place in 2001, before climbing back to the #4 spot in 2003. Tesco has seen a jump in the rankings similar to Home Depot. Currently at #5, Tesco ranked 18th in 1996. Sixth-place Kroger ascended the ranks from #13 ten years ago. Target (formerly Dayton Hudson Corp.) climbed back into 7th place in 2005, surpassing Costco. Costco became a Top 10 retailer in 2002. Despite slipping one place to the #8 position behind Target, Costco has risen 14 notches over the past ten years. Sears and Kmart made return trips to the Top 10 in 2005 study as the combined entity Sears Holdings Corp., earning the 9th spot on the list. Sears, Roebuck & Co. was the world's second largest retailer in 1996 and 1997. It then suffered a steady decline, bottoming out at #20 in 2004. Kmart, among the Top 10 until 2002, fell precipitously to #33 last year. Rounding out the list, Schwarz Group has overtaken Aldi as the world's biggest hard discount retailer, entering the Top 10 for the first time. The company rose from 11th place the year before. While the Top 10 retailers have been a fairly stable group over the past few years, a longer look back reminds us that the retail life cycle cannot be extended indefinitely without continuously adapting the business to changing market forces and competitive dynamics. Ahold, ranked #3 just five short years ago and #9 last year, is no longer among the elite Top 10 as it continues to sell off operations around the world in an effort to reduce debt and focus on more stable markets closer to home. Albertsons LLC is all that remains of what was once the 2nd largest grocery chain in the US. As recently as five years ago, it was also the world's 8th largest retailer. Pressured by shareholders to put itself up for sale, the company was sold to a consortium of investors in 2006.

Table 2: Top 10 American Retailers

North.America rank	Top 250 rank	Company	Retail sales (US$ billions)
1.	1.	Wal-Mart	312,4
2.	3.	Home Depot	81,5
3.	6	Kroger	60,6
4.	7.	Target	52,6
5.	8.	Costco	51,9
6.	9.	Sears Holdings	49,1
7.	13.	Lowe's	43,2
8.	14.	Walgreen	42,2
9.	16.	Albertsons	40,4
10.	18.	Safeway	38,4

[2]

The Top 10 North American retailers are all US based. All are among the top 20 retailers worldwide. The only significant change from last year's lists is the addition of Sears Holdings which substitutes at #6 for 10th ranked Sears, Roebuck.

The Top 10 European retailers are based in four countries: France, Germany, UK and the Netherlands. All are among top 25 retailers worldwide. Changes from last year's list include Ahold's fall from the 4th largest European retailer to #9 in this year's study. ITM has fallen off the top 10, having sold its German operations in 2005 to Edka-Zentrale, which takes its place.

Table 3: Top 10 European Retailers

Europe rank	Top 250 rank	Company	Retail sales (US$ billions)	Country of origin
1.	2.	Carrefour	92,8	France
2.	4.	Metro	69,1	Germany
3.	5.	Tesco	68,9	UK
4.	10.	Schwartz	45,9	Germany
5.	11.	Aldi	45,1	Germany
6.	12.	Rewe-Zentral	44,0	Germany
7.	15.	Anchan	41,2	France
8.	17.	Edeka Zentrale	39,4	Germany
9.	21.	Ahold	36,9	Netherlands
10.	22	E.Leclerc	35,5	France

[2]

There are 9 retailers from Latin America among the 250, 3 of which are new to the top 250 in 2005. The Latin American companies are based in Brasil, Mexico and Chile. All fall in the bottom half of the top 250 list. Brasil-based Pao de Acucar, 2004's largest Latin American retailer is now accounted for as a part of France-based Casino's International Operations.

Table 4: Top 10 Latin America retail leaders

Latin America rank	Top 250 rank	Company	Retail sales (US$ billions)	Country of origin
1.	2.	Carrefour	92,8	France
2.	4.	Metro	69,1	Germany
3.	5.	Tesco	68,9	UK
4.	10.	Schwartz	45,9	Germany
5.	11.	Aldi	45,1	Germany
6.	12.	Rewe-Zentral	44,0	Germany
7.	15.	Anchan	41,2	France
8.	17.	Edeka Zentrale	39,4	Germany
9.	21.	Ahold	36,9	Netherlands
10.	22	E.Leclerc	35,5	France

[2]

Seven of the top 10 Asia/Pacific retailers are based in Japan. The largest, Aeon operating a variety of formats is nr 20 amaong the top 250. The second largest Asian retailer Seven&1 Holdings is a new company established in September 2005. Hong Kong based, AS Watson has also joined the Asia top 10 as a result of numerous acquisitions. None of the top 10 Asia/Pacific retailers is among the top 10 retailers worldwide.

Top 10 retail leaders of Asia/Pacific

Asia/Pacific rank	Top 250 rank	Company	Retail sales (US$ billions)	Country of origin
1.	20	AEON	37	Japan
2.	24	Seven&1 Holding	32,9	Japan
3.	29	Woolworths Ltd.	27,7	Australia
4.	30	Coles Myer	27,4	Australia
5.	60	AS Watson	11,4	Hong Kong

6.	61	Yamada Denki	11,4	Japan
7.	65	The Daiei	10,7	Japan
8.	67	Uny Co.	10,6	Japan
9.	79	Millenium Retailing	8,6	Japan
10.	83	Takashimaya	8,3	Japan

[2]

The Africa/Middle East region has 5 companies among the top 250.. All are based in South Africa. Metcash Trading has dropped from #81 in 2004 to #230 in 2005 ranking, having sold its Australasian operations to Metcash Group.

TopAfrica/Middle East retail leaders

Africa/Middle East rank	Top 250 rank	Company	Retail sales (US$ billions)	Country of origin
1.	122	Pick'n Pay	5,5	South Africa
2.	123	Shoprite Holdings	5,4	South Africa
3.	140	Massmart Holdings	4,7	South Africa
4.	230	Metcash Trading	2,7	South Africa
5.	246	Edgars Stores	2,6	South Africa

[2] Top 10 retailers by major product sector

As most of the world's Top 10 largest retailers operate primarily food, drug and/or mass retail formats, the Top 10 Retailers of Fast-Moving Consumer Goods look almost identical to the overall Top 10 list, with the exception of Home Depot and Sears Holdings. But even that is starting to change as Home Depot has begun testing a new gasoline/convenience store concept called Home Depot Fuel in the parking lots of several of its stores. Fifty-three retailers (or 21% of the Top 250) are predominantly Hardlines & Leisure Goods retailers. Home Depot (#3 overall) is the highest ranking company in this group. The remaining Top 10 Hardlines retailers range from 13th to 81st among the Top 250 and include mostly US companies.

The Fashion Goods sector is comprised of 47 retailers that operate primarily softgoods retailing formats. As a group, these companies tend to be smaller than retailers in the food or hardgoods sectors. None of these retailers is among the top 10 largest retailers in the world, or even the top 25. The top Fashion Goods retailer in 2005 was Federated Department Stores, which surpassed JCPenney for the first time, following its 2005 acquisition of former rival May Department Stores Co.

The Diversified sector has the fewest representatives on the Top 250 list, with 17. Sears Holdings, the largest company in this group, is the only one to rank among the world's Top 10 largest retailers, the result of Kmart's 2005 acquisition of Sears, Roebuck. The geographic make-up of this group is diversified as well, with representatives from nine countries.

Top 10 Fast Moving Consumer Goods retailers in 2005

Sector rank	Top 250 rank	Company	Retail sales (US$ billions)	Country of origin
1.	1	Wal-Mart	312,4	USA
2.	2	Carrefour	92,8	France
3.	4	Metro	69,1	Germany
4.	5	Tesco	68,9	UK
5.	6	Kroger	60,6	USA
6.	7	Target	52,6	USA
7.	8	Costco	51,9	USA
8.	10	Schwartz	45,9	Germany
9.	11	Aldi	45,1	Germany
10.	12	Rewe-Zentral	44	Germany

[2]

Top 10 Hardlines &Leisure Goods retailers in 2005

Sector rank	Top 250 rank	Company	Retail sales (US$ billions)	Country of origin
1.	3	Home Depot	81,5	USA
2.	13	Lowe’s	43,2	USA
3.	25	Best Buy	30,8	USA
4.	35	IKEA	18,8	Sweden
5.	39	Staples	16,1	USA
6.	42	PPR Group	15,8	France
7.	44	Kingfisher	14,5	UK
8.	46	Office Depot	14,3	USA
9.	52	Dell	12,2	USA
10.	56	DSG Int’l (Dixons)	11,7	UK

[2]

Top 10 Fashion Goods retailers in 2005

Sector rank	Top 250 rank	Company	Retail sales (US$ billions)	Country of origin
1.	32	Federated Dept.Stores	22,4	USA

2.	36	ICPenney	18,8	USA
3.	40	TJX	16,1	USA
4.	41	Gap	16	Sweden
5.	45	Karstadtquelle	14,3	Germany
6.	48	Kohl's	13,4	USA
7.	59	Otto Group	11,5	Germany
8.	72	Limited Brands	9,7	USA
9.	79	Millenium Retailing	8,6	Japan
10.	81	H&M	8,4	Sweden

[2]

Top 10 Diversified retailers in 2005

Sector rank	Top 250 rank	Company	Retail sales (US$ billions)	Country of origin
1.	9	Sears Holding	49,1	USA
2.	43	El Corte Ingles	15,8	Spain
3.	47	Marks& Spencer	13,9	UK
4.	89	Lotte Shoping	8	S.Korea
5.	90	Kesko	8	Finland
6	112	Tokyu	6	Japan
7.	137	Maxeda (Royal Vendex)	4,8	Netherlands
8.	140	Massmart Holdings	4,7	S Africa
9.	144	LVMH	4,5	France
10.	145	Gr.Galeries Lafayette	4,5	France

[2]

The last two years have been rewarding for many retailers as a result of improved fundamentals. The global economy has emerged from its doldrums, which has put more money in consumers' pockets. Profitability and cash positions have risen. Investments in technology are beginning to pay off. Various international markets are showing increasing signs of promise. Competition remains intense in the industry, but the successful industry players have developed the focused strategies that are allowingthem to flourish.

Technology, for one, continues to be the great enabler in helping retailers achieve profitable growth[1]. The industry remains one of the major purchasers of technology,and the benefits are paying off for many companies. Supply chain

[1] Kenny and Marshall (2006, p. 72-74).

execution has become critical to improved business performance. Optimized merchandise assortments are providing great rewards. Customer-management systems are being enhanced by detailed segmentation and profiling.

The economy's upbeat performance, coupled with the benefits being derived from technology, helped lift retailer profitability. In 2003, only 6 percent of retailers reported a net loss; this percentage was less than half of what it was in 2001. Among retailers that were profitable, the average net income represented 3.3 percent of group sales.

Additionally, the analysis of retail stock performance showed that a number of companies are currently valued favorably by the equity markets. Some of the strong valuations are likely due in part to various success factors, such as strong branding efforts or enjoying a unique position in the marketplace.

As the retail environment has turned more positive, retailers' cash positions have improved, resulting in increased merger and acquisition activity. Some recent examples: Canada's Alimentation Couche-Tard purchased the Circle K convenience storesin the US. In 2003, private equity groups purchased Debenhams in the UK. CVS and

Jean Coutu purchased Eckerd from JCPenney. The Sports Authority and Gart Sports merged in 2003, and more recently, May Department Store Co. purchased Target's Marshall Field's, upscale apparel retailer Barney's was purchased by Jones Apparel and Albertsons bought Shaw's and Star Markets. Perhaps most striking was the late- 2004 announcement of the Kmart-Sears mega-deal. The combined company will have annual revenue of approximately $55 billion and operate more than 3,400 stores.

Food retailing recently has been buffeted by several newsworthy events. In early 2003, reports of bird flu outbreaks and mad cow disease influenced sales of various meat and fresh produce sectors throughout Europe, North America and Asia. A more lasting impact, however, has come from the media spotlight on the growing number of individuals around the world who are overweight. Obesity was recently voted the top food news story of the year by American newspaper and magazine food editors. In 2003, Ireland became the first nation to set limits on prime-time junk food commercials on TV. Retailers are responding to these developments in numerous ways. The growth in organic and natural foods remains strong in Europe and the US, with many food retailers continuing to successfully introduce private labels in these areas. Apparel retailers are increasing their selections of plus-size clothing to accommodate the expanding girth of consumers.

Other demographic trends that have taken on added relevance include the aging and growing diversity of Western populations. In Japan, for example, "silver spenders" have become an important target because of their high levels of savings, and hence, spending power. In the US, retailing concepts that cater to older women are growing. The Gap in the US recently announced a new concept for Baby Boomer women. Additionally, multicultural marketing has taken off as populations become more diverse.

The prevalence of today's 24/7 culture is creating both challenges and opportunities for retailers. Time-starved consumers today often seek the convenience of one-stop shopping, although the trend is creating channel blurring. The Internet continues to grow in importance as retailers improve on their ability to provide an efficient, fullymerchandised e-tail experience. Multi-channel retailing is proving to be very popular with consumers. A research report noted that 2004 holiday shopping on the Internet was expected to be greater in Europe than in the US. Privacy and unscrupulous vendors, however, continue to be issues that need favorable resolution. The Federal Trade Commission in the US recently noted that the chances of getting "dot-conned" are greater now than ever before. Risk management has come to the forefront in many retailers' operations. The Sarbanes-Oxley Act of 2004 and Europe's International Financial Reporting Standards are influencing such accounting topics as revenue recognition and vendor rebates and allowances. Many retailers are promoting social, environmental and ethical responsibility to enhance public perceptions.

Retail sales in the last year were affected by the following factors[1]:

1) Sales of both new and existing homes slowed, particularly in the second half of the year. While homes themselves are not counted in retail sales figures, buyers of these homes are a significant force at retail stores where they purchase furniture, appliances, linens, consumer electronics and garden supplies to fill up their new residences. Likewise, builders and remodelers are a strong factor in retail sales, when they purchase supplies, materials, appliances, etc. at retail outlets. The 2006 slowdown in building and remodeling led to reduced sales at home centers such as Home Depot.

2) Another factor is interest rates on consumer loans and mortgages: From 1998 through 2005, Americans were refinancing their existing home mortgages in record-setting numbers. In doing so, they took advantage of very low mortgage interest rates. Many homeowners also increased the balance on their mortgages, taking advantage of rapidly rising home values that increased their borrowing power. Borrowing against home equity lines of credit was also high, and much of that money went to retail purchases. Homeowners were spending this cash windfall freely, driving up retail sales in many categories. However, by the second half of 2006, the slowing real estate market, along with higher mortgage rates, meant that the party was over. This has definitely had a negative effect on

[1] Annual Groth in US Retail Sales, Retail Industry Statistics.

retail sales. Meanwhile, consumer interest rates in general were up a bit in 2006, leading to higher loan payments on new or adjustable rate loans and on some automobile loans and installment loans for household items.

3) The sale of gasoline at the pump is included in retail sales figures. Extremely high prices per gallon for gasoline have shown up as growth of total retail sales in America. At the same time, consumers have been forced to allocate a larger portion of their household budgets for gasoline, electricity and heating oil, leaving fewer dollars left over for discretionary retail spending.

4) Another matter to consider when evaluating retail sales growth is the relatively low rate of inflation that the U.S. has enjoyed in recent years (due to factors that include growth in business productivity and low prices for imported goods-especially those made in China). To get the actual rate of retail sales growth before inflation, subtract the rate of inflation from the yearly change in retail sales.

Direct selling through online retailers, catalog companies and home-shopping television channels continues to increase. Sales via the Internet rose dramatically in 2006, up an estimated 18% to $104 billion thanks to savvy marketing by online giants like Amazon.com, as well as the e-commerce efforts of traditional retailers such as J.C. Penney and Wal-Mart. Likewise, the sale of merchandise via television home-shopping channels racks up several billion dollars in annual sales. Companies engaged in this activity include the Home Shopping Network and QVC, Inc.

Conclusion

The global economy has continued to perform reasonably well, lifting retail sales and profitability. However, heightened concern about the growing risks facing retailers is changing the management agenda from one of managing for profitable growth to one of managing and mitigating risk. There is growing awareness among senior management and corporate directors in the retail industry - whose risk management agendas heretofore have been focused primarily on financial integrity issues - of the non-financial risks confronting their organizations. Retailers also face increasing risks in other areas that are less well-recognized or understood. The nature of global commerce now requires retailers to take into consideration a number of serious issues that did not exist before. Being a good global citizen-minimizing a company's impact on the environment and maximizing benefits to the communities in which it operates-is becoming an increasingly important topic on the corporate risk management agenda. Being seen as part of the solution to society's problems rather than part of the problem is key. Food safety concerns and product counterfeiting are having significant repercussions throughout the global supply chain.

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IDEOLOGY, CONSTITUTIONAL CULTURE AND INSTITUTIONAL CHANGE: THE EU CONSTITUTION AS REFLECTION OF EUROPE'S EMERGENT POSTMODERNISM

Nikolay Wenzel [*]

Abstract

Using the example of the European Constitution, this paper argues that ideology plays a much more important role in institutional change than has been indicated hitherto in the literature. Rather than being an intellectual parlor-game, Postmodernism has emerged through European high culture to find its voice in the new Constitution. Although it was rejected by a critical mass of voters, the proposed Constitution offers a telling glimpse into the European intellectual mindset – especially since politicians are now bruiting the possibility of ratifying the constitution via compliant legislatures rather than fickle referenda. Anomalies in the document are better explained by the post-World War Two emergence of postmodern philosophy in Europe than by more traditional explanations from political economy.

Introduction

Theories of institutional change typically view the transformation of institutions as the result of interactions among different interests – whether imposed or emergent, intended or unintended. While such approaches shed light on institutional change, something seems to be missing. Do interest and competition really provide sufficient explanation, especially once we move

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beyond the neoclassical assumption of perfect rationality? The literature on sociotropic voting (Caplan 2002) and expressive voting (Brennan and Lomasky 1993) along with some voices in New Institutional Economics (*e.g.*, North 1990, North 1994, Pejovich 2003) indicates that institutional change does not emerge exclusively from power struggles or a cooperation game.

Using the example of the proposed European Constitution as a reflection of Europe's emergent postmodern philosophy, this paper argues that ideology plays a much more important role than has been indicated hitherto in the literature. Rather than being an odd fancy relegated to the *salons* of Europe and isolated faculties of Philosophy, English, and Cultural Studies at American universities, Postmodernism has emerged through European high culture to find its voice in the European Constitution. Although it was recently rejected by a critical mass of European voters, the proposed constitution offers a telling glimpse into the European intellectual mindset. While the constitution may have been rejected by French and Dutch voters in national referenda, we have not heard the last of it; in the wake of the European Union's 50th anniversary celebrations, the draft constitution is certain to resurface, if in modified form, most likely for ratification by national legislatures. Anomalies in the document are better explained by the post-World War Two emergence of postmodern ideology in Europe than by more traditional political economy explanations.

This paper examines some constitutional anomalies, including the peculiar origin of European citizenship and identity, the emphasis on positive over negative rights, the predilection for process over result, and the rejection of the American Hobbesian world in favor of a European postmodern paradise of perpetual peace through diplomacy. Section I offers background comments on institutions and institutional change. Section II examines the EU constitution, its background and constitutional anomalies. Section III presents a primer on the philosophy of Postmodernism. Section IV ties in the previous two sections, explaining the EU constitution from a postmodern perspective. The final section concludes.

I. Institutions and Institutional Change

The role of institutions in mitigating transaction costs, facilitating the transfer of knowledge, and offering sound incentives has already been thoroughly described in the literature (see, *e.g*. Furubotn and Richter 2000, Langlois 1994 and North 1994).

1. Institutional Evolution

But where do institutions come from, and how do they evolve? Institutions are inherently dynamic, as they reflect the mechanisms of a multitude of simultaneous interactions (see, *e.g.* North 1994 on institutional change and the role of learning in institutional evolution). Different intellectual traditions see different sources and forms of institutional change, whether from a contractual renegotiation (Buchanan 1975 or Brennan and Buchanan 1985; generally, see Hardin 1988, Gordon 1976 and Voigt 1997) or from a more gradual emergence or coordination (Hayek 1967a, 1967b, 1979a [1973, 1976, 1979] and 1979b 1988, Hardin 1988 and 1999 or Gordon 1976)

Something seems to be missing in all of these stories (although the emergent perspectives come closest). Are interest and competition really sufficient to explain institutional change? The literature on sociotropic voting (Caplan 2002) and expressive voting (Brennan and Lomasky 1993) indicates that the institutional story does not end with selfish actors interacting in the institutional arena, with institutional change emerging as a consequence of power struggles, conflicts of interest, or a cooperation game.

Let us, then, digress for a moment and talk of ideology. Hirshleifer (in North 1978) reminds us that there is more to social change than just political or economic competition, or a shift in relative prices: "many of the really great social changes in human history have clearly stemmed from shifts in people's goals for living. Indeed, the economist is in danger of trivializing these fundamental values and goals by suggesting that they are merely arbitrary 'tastes'." North (1994) further explains that

[it] is necessary to dismantle the rationality assumption underlying economic theory in order to approach constructively the nature of human learning [and its influence on institutional change]. History demonstrates that ideas, ideologies, myths, dogmas, and prejudices matter; and an understanding of the way they evolve is necessary for further progress in developing a framework to understand societal change.

He then defines ideology as "shared frameworks of mental models that groups of individuals possess that provide both an interpretation of the environment and a prescription as to how that environment should be ordered." This concept is clarified by Pejovich (2003) with the notion of *prevailing* culture, a community's "mainstream" rules of the game.

Once we have added ideology to the mix, a different picture emerges. To be sure, ideology does not explain away the importance of interest or competition in determining institutional choice and evolution – but it does alter and complete the analysis. Borrowing for a moment from microeconomics, we might think of the interplay between interest and ideology as that between a budget constraint and a utility function, where both are determinants of optimal quantity consumed. North (1994) explains how "it is more than just constitutional rules – it is also the ideological context that determines the acceptable range of choices."

Drawing from a different tradition – philosophy – Pippin (1999, xvii) argues that "Modern institutions…presume a distinct sort of authority, a claim to allegiance based on distinct premises that are essentially philosophical claims."

In recognizing the role of ideology in institutional change, this paper does not abandon the more traditional stories completely, but instead builds on them. To illustrate, it examines a particular case study – the proposed Constitution of the European Union. The document shows the marks of competition among political and economic agents and a consensus among the European powers. But as we will also see, these two stories are not sufficient, and the injection of ideological analysis explains much that the traditional approaches cannot. The European Constitution is a manifestation of a distinctly European ideology: the philosophy of Postmodernism.

2. Constitutional Culture

As a particularly relevant type of ideology, constitutional culture can be defined as an attitude about constitutional constraints and constitutionalism. Constitutional culture includes the implicit and explicit, stated and unstated, conscious and subconscious, thoughts, feelings, beliefs, impressions and norms a group holds about the nature, scope and function of constitutional constraints. Different groups in society (*e.g.* educated versus uneducated, élites versus masses, legal practitioners versus politicians, politicians versus the street, dirigiste versus *laissez-faire*, etc.) can have different constitutional cultures. In a linguistic simplification, I will refer to the predominant constitutional culture – the constitutional culture of the most powerful meso-group or the constitutional culture most widely shared – as the national constitutional culture, where appropriate.

Constitutional culture is an element of political and civic culture (see Almond and Verba 1965; Putnam 1978 and 1993, Sartori 1965, or Franklin and Baum 1995) dealing specifically with constitutional attitudes; it is thus narrower, and does not include related parameters such as civic participation, political cognition, partisanship, pride in institutions, time-preference, tolerance, electoral participation, etc. Constitutional culture contains only the elements pertaining to meta-rules, the general organization of law and society, and willingness to be constrained. To be sure, the two (civic/political culture and constitutional culture) are related and intertwined. But I focus here exclusively on constitutional culture, leaving the details of democracy and civic involvement to an already rich literature.

Thus, constitutional culture reflects the most basic beliefs and attitudes about general organization, that is, not just the constitutional text itself, "but the entire network of attitudes, norms, behaviors and expectations among elites and publics that that surround and support the written instrument" (Burnham 1982, 78, paraphrasing Aristotle). As such, constitutional culture varies along a number of themes and questions beyond the actual constitutional text.

- Is a constitution a permanent document, representing eternal truths or natural laws about human nature? Or is it merely a set of organizational by-laws, to be amended as a reflection of the *Zeitgeist*?
- Is the constitution a source of legal protection of rights, as enshrined perhaps in a bill of rights? Or does the constitution merely establish the governance structures, legislatures, etc. that will protect those rights, themselves defined by the legislature, as reflection of the popular will?
- If there is a conflict between the constitution and the popular will, as expressed by an electoral majority, which should prevail? Should the constitution, as an expression of fundamentals, carry and act as a buffer against tyranny of the majority? Or should the majority prevail, as the constitution is seen as a holdover from the past, giving undue influence to past power holders? In more concrete day-to-day terms, what if there is a conflict between the government and the constitution? Should the legislature, as representative of the popular will, prevail? Or should a body of constitutional review – almost certainly not democratically chosen – dictate proper constitutional conduct and have the power to nullify acts of parliament or the executive? To what extent, and under what circumstances? Who is to interpret the constitution? Should details be left to the text, to the executive, to the judiciary to popular referendum, or to the legislative majority? Or to the military?
- What if there is a conflict between the constitution and political expediency? Which should carry? The constitution, as long-term arrangement and compromise? Or should the constitution be bypassed, as a thwart to efficiency, expediency or "progress." And, in dire circumstances, when should the constitution (or elements thereof) be suspended, say by a military coup?
- How is the constitution to be amended? Should it be amended by simple majority, just like any other act of legislature? Or is it important enough that a super-majority, or even a special constitutional convention, ought to be required?
- Is the constitution widely accepted as a coordinating mechanism? Or is it merely seen as an unfair increase of transaction costs, to benefit those who established it? Should we accept constitutional constraints, while remaining free to complain about them? Or should we (or do we) ignore or rebel against those

we do not like, or with whom we disagree? Do we bow to those who hold power constitutionally? Or do we merely acquiesce and do our best to undermine them?

Contrary to existing definitions, I adopt a broader definition of constitutional culture, to incorporate all feelings and attitudes about constitutionalism, and not just a constitutional culture that accepts constitutional constraints. Thus, a given constitutional culture can reject constitutionalism outright, if expediency is valued more than principle. In fact, such cases of rejection (constitutional failure) and the shifting subtleties of constitutional culture within general acceptance (constitutional maintenance) are indeed more instructive than the narrower definitions presented above from the literature. For details on the definition of constitutional culture, see Wenzel 2007a; for methodological considerations, see Wenzel 2007c and 2007h; for general applications, see Wenzel 2006 and 2007b; for questions of matching constitutional culture with parchment see 2007d and 2007e, as well as 2007f and 2007g for case studies. For now, suffice it to say that constitutional culture affects the choice of parchment (in addition to the likelihood of success of any given constitutional system).

II. From Interest To Ideology: The EU Constitution

The European Union rose sphinx-like from the ashes of a traumatized post-World War Two Europe. Although the vision of a "United States of Europe" was present at the creation, the transformation from warring European states to the present European Union was gradual – and took more than half a century to accomplish. The European Constitution does, to an extent, represent the traditional story about unintended consequences from competition and the intended consequences of coordination.

1. The Road from Rome to Brussels

From a loose commercial coalition started in the rubble of post-war Europe, to a more formal European Community started in 1957 with the Treaty of Rome, the European project has evolved into a European Union of 27 members, complete with its own institutions, a common currency[1], a unified central bank, a common market, and limited restrictions on internal immigration.

How did the EU evolve from a collection of disparate countries (that had been fighting for the better part of the last millennium) into an increasingly unified entity? Two stories can be told from the traditional perspectives of

[1] If only 13 of the 27 member states of the European Union.

institutional change, *i.e*. an economic analysis starting from incentives, competition and unintended consequences.

a. The EU as Coordination Game

The first and simplest story comes from analysis of the EU as a coordination game. The emergence of the European Union can be seen simply as a coordination game among the European states (what Hardin (1999) calls "politically significant" forces or "interests that matter"). After centuries of warfare, culminating in the carnage of World War Two, Europe was exhausted and broken. The original purpose of the European Community (through the European Coal and Steel agreements in 1951) was to intertwine the economies of France and Germany so tightly that it would be impossible for them to engage in another war. The European Union, on a very basic level, can be seen simply as a coordinating device for all the players in the European football game to play fair with each other – and gain strength through cooperation.

b. The Lobbyists and the Lobbied: the EU as Unintended Consequence

Instead of viewing institutional change as an intentional result of coordination efforts, we can view it as the "unintended result of market interactions" (see, *e.g*. Langlois 1992) – in this case, the competition among lobbyists seeking rents from the growing European Union.

An alternative to the coordination game explanation is that the European Union – rather than being the intended result of negotiation among the politically significant actors in Europe – is the unintended consequence of rent-seeking activity. We can thus see the European Union's penchant for regulation as an extension of the Franco-German welfare state, slowly harmonizing (always up, rather than down) the regulatory and tax regimes of the different European countries to reduce internal competition (de Jasay 2003a and 2003b). States, however, are not the only lobbyists in Europe: the lobbyists themselves also have an interest in the story. Thus, Petroni (2003) argues that, although the EU was originally established to avoid war through trade and industrial intertwining, the lawyers and judges quickly took over the politicians' project. Their principal tools were strategic legal obfuscation (see Howe 2004) and the doctrine of *acquis communautaire*. According to this principle – which was established by the European Court of Justice's judicial fiat rather than by treaty or legislation – any power or jurisdiction relinquished by the member states to the EU (whether by treaty or by the Court) remains an undisputed EU power or jurisdiction in so-called "similar" cases, as determined by the Court – rather than according to the letter or particulars of future treaties and cases.

Anderson (1994) offers a theoretical addition to this story. Instead of the State as merely a regulation- and rent-producing black box lobbied by different

rent-seekers, we now have the addition of government as another element in the lobbying equation. After all, the State and its bureaucrats also have an interest in institutional change. Just as the European Court has increased its own power by judicial fiat, the EU institutions themselves have lobbied for greater growth. Thus, 18 of 66 delegates to the European Constitutional Convention (and four of 12 of the Convention’s Presidium) represented European Union institutions, rather than member states or the people thereof. More importantly, with the addition of a Convention president and two vice presidents, the "recent European Convention was constructed so that the median voter of the convention had a bias in favor of centralization" (European Constitutional Group 2004). Not surprisingly, more centralization is exactly what the Convention produced – to the greater glory of existing EU institutions (see also de Jasay 2003a and 2003b).

2. The Constitutional Document: Beyond Mere Interest?

For all their descriptive powers, these two traditional stories of institutional change do not sufficiently explain the overall thrust of the European Constitution. Beyond length and lack of clarity, the document is bizarre at best; in fact, Pini (2003) has gone so far as to describe it as "a constitutionalist’s delusion," "a political aberration," and "not a constitution – not theoretically, not practically." As the 126-page behemoth reads more like a spending bill than a constitution, I simplify the analysis into three salient representative themes: citizenship, rights, and strategic obfuscation.

a. Citizenship and Identity

In the American model, government derives its legitimacy up from the people. There is no such sense in the European case, where the constitution comes first, then citizenship derives from the document (similar to a condominium association in the US). The oddity continues with a tautological top-down, super-national identity: in a circular argument, the constitution is based on a sense of "Europeanness" that is itself derived from the constitution. European identity – rather than natural law in the American tradition, or the popular will in the continental Rousseau-Hegelian tradition – has become the philosophical foundation (see, generally, Petroni 2004).

Similarly, delegates to the Constitutional Convention agonized over the proper wording and substance for the philosophical foundations of Europe. Although some delegates pushed for inclusion of a reference to Europe’s Christian heritage, that wording was deemed too controversial, and was replaced by a milder acknowledgement of Europe’s "Graeco-Roman and Enlightenment tradition" (de Jasay 2003a and 2003b).

b. *Rights*

The fundamental purpose of a constitution is to establish the basic parameters of sound government and protect rights – to "impose significant constraints on government, whatever form it takes (majority rule or otherwise)" (Barry 1990; see also Hayek 1960, European Constitutional Group 2004 and Pini 2003). The European constitution does neither. By its sheer size (126 pages in the French original), it cannot be said to set up basic parameters. Instead, it attempts to set up the detailed mechanics of European federalism. Furthermore, Pini (2003) worries that the constitution, instead of limiting state power and protecting rights, is not sufficiently abstract and removed from the foibles of in-period politics (as a good constitution should be), and that it "adds rules, as always" (see also European Constitutional Group 2004).

The length and detail of the document underscore the radically different philosophies of the American and European documents. Madison's constitution set forth the limits of state action, establishing "islands of regulation in a sea of liberty." Giscard d'Estaing's constitution, conversely, establishes "islands of liberty in a sea of regulation" (see Barnett 1991 and 2004.) Just as citizenship is granted from the top down, so are rights. Petroni (2003) explains that there are no individual rights under the EU constitution: rights are those given by the constitution to the people. In this top-down spirit, the EU constitution places greater emphasis on (so-called) positive than negative rights – along with the member- and super-state's responsibilities in "guaranteeing" them.[1]

[1] The inclusion of positive "rights" is a contradictory jinx for a constitution. As I return to this point throughout, I should make a note here on the distinction between negative rights (life, liberty, the pursuit of happiness) and the fiction of "positive rights" ("right" to a job, to housing, to happiness, to education, etc.). Rand (1966, 322-325) explains it best:

> The concept of a "right" pertains only to action – specifically, to freedom of action. It means freedom from physical compulsion, coercion or interference by other men.
>
> Thus, for every individual, a right is the moral sanction of ...his freedom to act on his own judgment, for his own goals, by his own *voluntary*, *uncoerced* choice. As to his neighbors, his rights impose no obligations on them except of a *negative* kind: to abstain from violating his rights....
>
> [As for so-called "positive rights,"], jobs, food, clothing, recreation (!), homes, medical care, education, etc. do not grow in nature. These are man-made values – goods and services produced by men. *Who* is to provide them?
>
> If some men are entitled *by right* to the products of the work of others, it means that those others are deprived of rights and condemned to slave labor.
>
> Any alleged "right" of one man, which necessitates the violation of the rights of another, is not and cannot be a right.
>
> No man can have a right to impose an unchosen obligation, an unrewarded duty or an involuntary servitude on another man. There can be no such thing as "*the right to enslave*."
>
> A right does not include the material implementation of that right by other men; it includes only the freedom to earn that implementation by one's own effort....

c. Muddle, obscurity and subterfuge

The mere length of the EU Constitution makes it a delight for sadistic law professors. The text of the US Constitution is comparatively simple and straightforward, yet has generated volumes of controversy and interpretation. One can only imagine the seeds of confusion, conflict and interpretation strewn in the long and complex European text. As described above, a plausible story has been told that the lawyers and judges co-opted the original European project. By making things more legalistically complicated, these high priests of constitutional interpretation stand to gain.

But the story does not end there. Howe (2004) explains the institutional mission creep and jurisprudence of European legal interpretation. The European Commission (the EU's executive arm) has been "using powers for one purpose to serve a quite different…purpose." The EU Constitution's "general provisions…will encourage the Commission and the ECJ [European Court of Justice] to interpret EU powers even more broadly than they do at present." Furthermore, the Court has not been an innocent bystander in this process. In addition to expanding its own powers and Union powers through creative interpretations and through the principle of *acquis communautaire* defined above, the Court has been manipulating jurisdiction. Howe (2004) explains how the Court "interprets the legal texts which it enforces largely by reference to their 'objects and purposes.' This means…that identically worded provisions in two different treaties can be interpreted to have very different effects." Things will only get worse with the new constitution, as "changing the legal basis of the EU from a series of treaties to a self-contained Constitution would fundamentally alter the Court's view of the 'objects and purposes' of the legal texts which it is applying."

> Any undertaking that involves more than one man, requires the *voluntary* consent of every participant. Every one of them has the *right* to make his own decision, but none has the right to force his decision on others.
>
> There is no such thing as "a right to a job" – there is only the right of free trade, that is: a man's right to take a job if another man chooses to hire him. There is no "right to a home," on the right of free trade: the right to build a home or to buy it. There are not "rights to a 'fair' wage or a 'fair' price" if no one chooses to pay it, to hire a man or to buy his product. There are no "rights of consumers" to milk, shoes, movies or champagne (there is only the right to manufacture them oneself)...

The presence of positive "rights" in a constitution is problematic (beyond the patent philosophical absurdity). Indeed, it is contradictory at best, and schizophrenic at worst, to commingle the protection of negative rights with positive "rights" (which imply, *ipso facto*, a violation of the negative rights of those forced to provide the goods or services to which an alleged positive "right" is created). Feeding the hungry is surely a noble goal, and worthy of a societal (and thus perhaps constitutional) aspiration – but to invent a "right to eat" and thus violate property rights is an ill-omened start for constitutional restraints on government.

Robinson (2004) explains that such "constitutional muddle" is intentional, and has served the purposes of European centralizers. Unable to obtain their political goals immediately, they have resorted to legalistic obfuscation and unclear constitutional verbiage to achieve their aims through "subterfuge," "confus[ing] the citizens of various member states [in Europe's] 'Journey to an Unknown Destination'." Again, the lawyers, judges and Convention delegates remain the high priests in the interpretation of an intentionally confusing document; the incentives are clear.[1]

In a telling example, Petroni (2004) describes how the Constitution clearly defines "human health" as a function specifically reserved for the member-states and shielded from EU jurisdiction. Simultaneously, the Constitution enumerates "public health" as a European Union function – but does not define a distinction between "human health" and "public health"!

III. A Philosophical Parenthesis (… or "Postmodernism: A Primer")

At this point, a philosophical parenthesis becomes necessary. Indeed, although much of the European project makes sense as a simple coordination game or from a rent-seeking perspective, the constitutional anomalies described in the previous section (and the EU as a whole) cannot be explained by traditional economic theories of politics alone. These constitutional themes, along with a number of demonstrated preferences from the EU, represent a pattern of behavior and attitude. The pattern is, in fact, so striking, that one can speak of a European *Weltanschauung* – a way of looking at the world, a way of engaging it, a way of acting – that is, influencing the prevalent constitutional culture of the European Union. That *Weltanschauung* is Postmodernism, hence the need for a brief philosophical primer.

Like the European project, Postmodernism sprang forth from the horror and destruction of World War Two in Europe. But its roots run deeper, to the 19^{th} century. The philosophy stands in contrast, first and foremost, to Modernism (also known as the Enlightenment project).[2]

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[1] Such self-serving interpretation would seem to parallel the political sleight of hand that is likely in the constitution's imminent ratification. Having failed to convince the people, and having failed by referendum, politicians of EU member countires are now bruiting the possibility of adopting the constitution via the back door of parliamentary majority.

[2] N.B. Out of simplicity, I am conflating two very different (and often contradictory) strands of Enlightenment thought, viz. the Scottish and Continental Enlightenments. This is a dangerous – if far too common – conflation, as the Scots emphasized humility, reason grounded in faith, and a healthy acceptance of human nature, whereas the Continentals lapsed into a hubristic cult of reason, leading to social engineering, a complete negation of the individual in favor of some putative "greater" or "common" good – and, bluntly, Auschwitz and the Gulag. As much as I

Starting roughly in the 17th century, Modernism (the Enlightenment) replaced the pre-modern appeal to faith with an appeal to reason. Without lapsing into the details of philosophical theory (see Yack 1986, Harvey 1989 and Pippin 1999 for such details), the implications of Modernism ring familiar, as they are still with us today: the modern nation-state, with legitimacy derived from the people rather than from the monarch's divine right; the supreme authority of reason (over tradition or faith); human rights; free markets; and the mastery of nature through science and technology (Pippin 1999, 4-5). Harvey (1989, 12) explains how the purpose of the modern project was

to use the accumulation of knowledge generated by many individuals working freely and creatively for the pursuit of human emancipation and the enrichment of daily life. The scientific domination of nature promised freedom from scarcity, want, and the arbitrariness of natural calamity. The development of rational forms of social organization and rational modes of thought promised liberation from the irrationalities of myth, religious superstition, release from the arbitrary use of power as well as from the dark side of our human natures. Only through such a project could the universal, eternal, and the immutable qualities of all humanity be revealed.

Habermas (1983, 9) adds that the early Moderns had "the extravagant expectation that the arts and sciences would promote not only the control of natural forces but also understanding of the world and of the self, moral progress, the justice of institutions and even the happiness of human beings." Modernism was a hopeful, excited project, an optimistic unleashing of the human spirit and previously untapped human creativity, after earlier stifling by the bonds of tradition and faith.

Modernism offered a new epistemological appeal, detached from earlier religious confines. Harvey (1989, 13) explains that Modernity was "a secular movement that sought the demystification and desacralization of knowledge and social organization in order to liberate human beings from their chains." Even as it broke from the earlier religious monopoly, Modernity did not shed transcendent foundations entirely; for example, Kurtz (1986, 12) writes that 'the issue of Modernity was fundamentally a conflict between ecclesiastical authority and the authority of independent scholars,' i.e. a new approach to religion, rather than a

shudder to conflate these two lines of thought, I must resign myself to the fact that they are indeed conflated in the popular – and intellectual – mind; the postmodern reaction – if it is indeed a reaction to Auschwitz, the Gulag, the destruction of the environment through ill-defined property rights and the industrialization of war, all of which are necessary and inevitable consequences of the Continental Enlightenment – makes perfect sense. For details on the two enlightenments, see Hayek 1967, 1978 and 1979, Hampson 1991, Boettke 2000, Porter 2001, Himmelfarb 2004 and Wenzel 2007i.

total jettisoning of faith – what Daly (1985) refers to as 'the Kantian ideal of religion within the limits of reason.'

But the modern project was not without its doubters. As early as the 19th century, the very premises of Modernism began to be called into question. What began as doubts about the limitations of reason (initially brushed aside by Modernism's confident optimism) evolved into a fuller critique. Modernism was seen to be spiritually weakening at best, and downright destructive at worst. Pippin (1999, xii) describes 'the widespread nineteenth century suspicions (at least on the European continent) that ... the two greatest accomplishments of world civilization, modern natural science and technology, and a progressive, liberal democratic culture, were…slowly and inexorably enervating and spiritually destroying that very culture.' In many ways, such early grumblings foreshadowed much of the 20th century's ugliness and many of its problems. The scale and horror of two world wars galvanized the theoretical concerns. Pippin (1999, 7) explains that: the great self-confidence and progressivism characteristic of the modern enterprise and especially what seemed its nineteenth-century fruition, all looked even more difficult to accept after the historical horrors of the twentieth century. The fact that art, intellectual pursuits, the development of the natural sciences, many branches of scholarship flourished in close spatial, temporal proximity to massacre and the death camps has raised for many doubts about not only Modernity's self-assurances, but about all of Western culture, has raised the issue: Why did humanistic traditions and models of conduct prove so fragile a barrier against political bestiality?

Harvey (1989, 13) echoes this thought, explaining that 'whether or not the Enlightenment project was doomed from the start to plunge us into a Kafkaesque world, whether or not it was bound to lead to Auschwitz and Hiroshima, and whether it has any power left to inform and inspire contemporary thought and action, are crucial questions.'

According to the alternative school of *Post*-modernism, the modern project, 'laudable though it may have been at one time, has in its turn come to oppress humankind, and to force it into certain set ways of action' (Sim 2001, vii); Zuckert (1996, 1) traces the concerns back to the 'conviction that modern rationalism ha[d] exhausted its promise and possibilities', starting with Nietzsche. Where some saw aberrations or challenges within the modern project, Postmodernism saw unavoidable and logical consequences: colonialism; fascism/communism and industrially planned genocide; the destruction of the natural environment in the name of unfettered progress and technology; the North's 'exploitation' of the South; the horrors of modern warfare, compounded by methodical application of the very science and technology initially meant to liberate humanity; and the spiritual poverty and alienation of mass consumerism.

Harvey (1989: 13) explains that 'there are those – and this is... the core of post-modernist philosophical thought – who insist that we should, in the name of human emancipation, abandon the Enlightenment project entirely.' The postmodern rejection of the modern project is thus both (a) theoretical and methodological, and (b) applied and political.

On the theoretical and methodological side, we see a 'rejection of many, if not most, of the cultural certainties in which life in the West has been structured over the last couple of centuries' (Sim 2001, vii). Specifically, Postmodernism attacks the very core of the modern project, questioning the existence of any truth and the ability of human reason to find it. As a radical alternative, Postmodernism holds that knowledge and belief are products of environment, and that we should thus speak of contingent 'narratives' rather than absolute truths. Naturally, different people will have different narratives, as they have different cultural, intellectual, economic and sociological backgrounds. Thus, a postmodern comparison of narratives replaces the modern search for truth. On the applied and political side, two principal consequences follow from this radical relativism.

First, Postmodernism rejects any claim of absolute truth as an attempt to impose one worldview over others. No individual narrative has a legitimate right to exclude any other; everything is contingent on context and background, so there is no 'inside track' to truth (see Natoli 1997). In the vocabulary of Postmodernism, claims of superiority or truth are referred to as attempts to impose a 'master voice' or 'meta-narrative' (see Lyotard 1981). 'Postmodern politics then becomes a continuous negotiating of various compromises as to what meanings and values are to be represented in the social order and to what degree. Outcomes here are relative to time and place and the already established dispositions of power' (Natoli 1997, 18). There follows a suspicion of certainty and philosophical foundations, and the replacement of absolute 'meaning' with relative 'interpretation.' Pippin (1999, 41) explains that 'for many so-called postmodernists, modernism represents the last game played by Western bourgeois high culture, an elitist code designed only to preserve and celebrate the... point of view of an exhausted but still immensely powerful middle class.'

Second, Postmodernism challenges the main tenets of modern political economy. Thus, the modern nation-state becomes an instrument of centralized repression of minority voices; the supreme authority of reason ends up being but the 'voice' of those in power attempting to impose their personal views as 'the master voice' over all other narratives; natural rights are not universal values, but a Western concept, imposed on the rest of the world by 'cultural imperialism' or even force; free markets are seen as the freezing of one particular institutional arrangement that benefits those who have the power to expand their wealth through addictive, exploitative and spiritually hollow mass consumerism; and the mastery of nature through science and technology becomes an excuse for 'ecocide' in the empty name of progress.

Postmodernism is not just a cute way of interpreting literature, to the delight of sadistic faculty and the terror of students; it has slowly crept into the Western worldview. Huyssens (1984) asserts that:

What appears on one level as the latest fad, advertising pitch and hollow spectacle is part of a slowly emerging cultural transformation in Western societies, a change in sensibility for which the term "post-modern" is actually, at least for now, wholly adequate. The nature and depth of that transformation are debatable, but transformation it is. I don't want to be misunderstood as claiming that there is a wholesale paradigm shift of the cultural, social and economic orders; any such claim clearly would be overblown. But in an important sector of our culture there is a noticeable shift in sensibility, practices and discourse formations which distinguishes a post-modern set of assumptions, experiences and propositions from that of a preceding period.

This is just a *précis*, intended to provide an overview of the literature on and trends in Postmodernism and religion, rather than a detailed explanation of postmodern theory. Terms such as simulacra, *différance*, the Other and (k)nots are thus eschewed, as are such technical subtleties as described by Connor (2004, 4): 'How one capitalized or hyphenated – "post-modern," "Post-Modern," "postmodern," or "Postmodern" – seemed to many to matter a great deal, along with whether one chose to refer to "Postmodernism," "postmodernity," or simply "the postmodern".' Such details are beyond the present scope, and the interested reader is invited to visit the literature for greater depth that goes beyond the limited scope of this review (see, e.g., Lyotard 1981, Habermas 1983, Huyssens 1984, Harvey 1989, Bauman 1992, 1995 and 1997, Bertens 1995, Natoli 1997, Sim 2001 or Connor 2004).

IV. Understanding The European Union As A Postmodern Project

This brief description might lead to the conclusion that Postmodernism is just a trendy philosophy, a parlor-game for European intellectuals and isolated professors at a handful of Northeastern American universities. And with good reason…

However, lest we be tempted to consider Postmodernism as an obscure academic phenomenon, Pippin (1999, xvii) reminds us that "Modern institutions…presume a sort of distinct authority, a claim to allegiance based on distinct premises that are essentially philosophical claims and do not remain affected by skeptical attacks, however complicated and abstract the form of those attacks can initially be. If the principles supporting such claims to authority begin to look prejudiced or arbitrary, much more comes to be at stake than journal arguments or books reviews."

Indeed, an analysis of the European Constitution as a Postmodern document leads to a different understanding. Traditional explanations from the fields of New Institutional Economics, Public Choice and Constitutional Political Economy shed much light on the European project. But one can fully understand the EU and its new constitutional text only from an ideological standpoint, enriching economic analysis of institutions with an understanding of constitutional culture and postmodern philosophy.

1. Constitutional Themes

The three constitutional anomalies from section III.2 above (identity, rights, and textual obscurity) can best be explained through the lens of Postmodernism.

a. Identity

In a postmodern context, which eschews one "overarching story" in favor of competing narratives, Europe is the new galvanizing factor. Rather than the modern nation-state, postmodern Europe is an umbrella that gives voice to regional and personal interests; "one of the main points of postmodernism…is that 'the most particular is the most universal.' So when it comes to 'identity' the trick for the constitutional experts writing the constitution was to express that by being very much themselves, they would be more European" (Prado 2004). The European umbrella, along with the constitutional refusal to derive legitimacy from the people or nation-states, is a reflection of "[Postmodernism's] 'anything goes' pluralism and its delirious celebration of difference." (Sim 2001, 28)

b. Rights

Likewise, natural rights are considered a suspicious – and culturally contingent – holdover from Modernism. Far better to emphasize positive "rights" (which are much more fluid and subject to interpretation). The same goes for the safe, descriptive allusion to the "Graeco-Roman and Enlightenment heritage" over any appeal to Christianity and its tendency to impose a "meta-narrative." Naturally, a more traditional explanation would point to a pragmatic catering to Europe's large Moslem minorities or Turkey's possible entry into the EU. But, again, the traditional story makes more sense with an added ideological/philosophical explanation.

c. Textual Obscurity

The lack of clarity in the European Constitution goes beyond mere lawyers' games, and is better understood as postmodern interpretation over clear meaning. Prado (2004) explains that

[a] Constitution is, like every text, made out of language. Thus, given the metaphoric nature of language…a Constitution written in the 21st century is very open to a postmodern…analysis… Plus, given the fact that many governments will ask their citizens to approve the Constitution via referendum, the openness to interpretation of every text (a main issue in postmodernism) will play a big role. Every government will have to 'interpret' the Constitution in a certain way to make it palatable to its own citizenry. That's postmodern practice – 'meaning' is never 'closed'."

Postmodernism sheds a whole new light on the EU Constitution's textual obscurity and the European Court's interpretation of a treaty's purpose over its text.

2. Other European Preferences

Space considerations prevent more detail, but other aspects of European policy are also made clear within a postmodern understanding. Europe's quasi-religious preoccupation with environmental protection over economic growth, along with its adoption of the precautionary principle over rational, scientific/mathematical risk assessment, reflects the postmodern concern with scientific apprentices turning against their modern sorcerers. Europe's lack of military power and reluctance to use force can be understood as a (postmodern) state of "perpetual peace" through diplomacy, in contrast to the (very modern) Hobbesian world of military force in which the US continues to live (Kagan 2002). Europe's predilection for diplomatic and bureaucratic process and dialogue – over results – can be understood as a postmodern consideration of competing narratives rather than imposition of one narrative as the "meta-narrative." And the list goes on.

V. Conclusion: From University To Constitution

The subtitle of Pippin's (1999) book on *Modernity as a Philosophical Problem* ("On the dissatisfactions of European high culture") is no coincidence. Postmodernism has emerged from European high culture to find its voice in the new European Constitution. Without consideration of ideology, without an understanding of contemporary Europe's prevailing *Weltanschauung*, it would be impossible fully to understand the European project. We thus see the importance of incorporating ideology as a factor in analyzing institutional change.

This enriched analysis, however, begs a number of central questions. Specifically, where does ideological change come from? Indeed, it is a safe assumption that most Europeans have not read Derrida, Rorty, Habermas, Nietzsche, and the other high priests of Postmodernism in any detail, if at all. It is also safe to assume that most Europeans would fail a test on the basics of

Postmodernism. Yet Europe as a whole (as well as many Europeans, based on my own fledgling and informal economic anthropology) seems to embrace the Postmodern ideology, as reflected in its institutions and general *Weltanschauung*. Where, then, did Postmodernism come from? Is it taught in the schools? Has it made its way somehow into the popular culture, without being identified as such by the very people who embrace it? And if the ideology's main tenets do not explicitly exist in the minds of Europeans, where do they reside, and how are they transmitted? In and through conventions, language, standards, and ever elusive "culture"?

These remain unanswered questions, and the subject of further inquiry.[1] It is tricky enough to study constitutional culture and ideology, then watch them emerge into formal institutional order. But it will be even more intriguing to dig one step further, using the young discipline of economic anthropology, to study the very origins of culture and ideology. I welcome further research.

As for Europe, a critical mass of its voters has rejected the proposed Constitution of 2003. But we have not heard the last from the constitutionalists and the federalists. We can expect another draft Constitution before too long, if in the form of a treaty to be ratified by compliant legislatures rather than fickle voters. In the meantime, the first proposal offers great insight into the *Weltanschauung* in Europe. From the university to the statehouse, ideology has emerged.

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[1] I wrestle with such issues of ideological and cultural emergence in a separate set of papers (Wenzel 2007a, 2007c, and 2007h, as well as 2007j and 2007k).

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THE TOURISM'S MEASUREMENT IN THE VIEW OF LASTING DEVELOPMENT

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Abstract

The process of globalization and of lasting tourism's development aims at the touristic activities placed under the influence of ecology and of reasonable use of resources.

To measure the lasting tourism's development represents a necessity in the conditions of a deep interaction among the natural resources protection, the economic development and the compliance with the needs of the clients-customers.

The need to coordinate the efforts, both on a regional and at a national scale, for the achievement of great projects, is related with the measurement process concerning the activities involved in tourism.

The tourism's measurement, implicitly of the one belonging to the social-economic process, in consideration of the lasting development, supposes the approach and application of principles and methods which constitute the formation and using base of an almost complete set of indicators.

The system of indicators that must converge in an almost complete set has been analyzed by the OCDE forum which considers that their efficiency is higher if the information source is wider and diversified.

The social-economic national development strategy on medium term regards tourism as a priority sector, being considered that it is capable of contributing with an important weight in Romania's launching and economic straightening.

In the lasting development view, tourism has the essential role of observing and promoting society's general objectives. In this way it can be

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substantiated the balance between the touristic activities and the ones concerning the lasting development.

Improving the touristic product from the acknowledged values to those matching the international standards supposes the initiation and promotion of certain actions which should include, on one hand, the unrolling processes concerning the education and formation of a mentality which would be adequate to the present development type, and, on the other hand, the emphasis on lasting development in the reception regions. This emphasis needs to deepen in time and space the environment-economy relationship, which implies achieving the balance between the negative and the positive effects resulted from the unrolling touristic activities.

Before carrying on the process of lasting development in our country, it is important to place the component of planning, decorating and touristic activities as part of the strategy concerning the lasting development of the area, region or country.

The unrolling process, as a result of applying the stipulated strategy, needs using supplementary expenses in order to protect the environment and resources, these expenses being supposed to increase the investments' value at a national level, as a consequence of the collaboration among tourism, the other activity sectors and the local and governmental authorities.

The literature dedicated to the environment protection related to the tourism development approaches in general the subject of costs as a problem of resources' management and the intervention in the system is proposed basing on the principles deriving from those that define the lasting development.

The impact of tourism upon a certain area's sectors is being reflected with multiplication and stimulation effects on the production's plan, incomes and labor force.

The need of coordinating the efforts, both on a regional and on a national level for the accomplishment of great projects in the infrastructure area, especially transportation and communication, is being correlated with the process of arranging the territory, which supposes the coordination of all the projects with special implications, and solving possible conflicts appeared in this context by profound changes. The arrangement targeted to establish an evaluation, an hierarchic pattern in order to identify the most suitable and efficient ways of valuing the touristic patrimony by using a multi-criteria analysis of delimiting the tourist regions accompanied by the shaping of the priority actions for every case in particular.

For the touristic zoning, the arrangement of the territory and the proper politics must also find solutions for the threats against the environment made by certain tourists or industrial activities with a direct impact upon the touristic sector.

Considering the resources and this sector as a structural part of its economy, every country or region is dealing with specific challenges against environment. A possible response to these challenges would be applying the concept of mosaic *eco-development*, which proposes the implementation of the lasting development's principles on small areas, which should be gradually extended so that, on a long term, they should cover the whole national territory. In this view, the ecological space should look, ideally, like a chessboard, on which large agricultural land patches should mix with smaller patches allotted for industry, infrastructure, on various categories and with parks and natural reserves. This modification results from the irregular spatial distribution of the natural resources, as well as the application of some economic, social and environmental criteria. In this context, the ecology and the bio-economy can offer original solutions for the arrangement of the territory, so that adequate ecological areas can be allotted to each branch, resulting in a district complementing on the territorial level.

This complementing has to be approached not only from a functional perspective, but also from that of the rational use of the plots of land, the rising labor force participation, the increase of the income, of the effective participation in the inter-regional exchanges, the integration in the European structures and processes and the complementing with the restrictions imposed by the environment protection.

The application of the projects for a long-term development of the tourism starts from the early stages which deal with the projection and the construction of the technical-material base, with the purpose of harmonizing with the environment, the local community or other sectors of the economy, and continues during the development of the touristic activities.

The stages of the project development can and must be supervised and stimulated by the authorized bodies, which have also the capacity to establish strategies concerning solutions for the deficiencies occurring during their development.

The application of this criterion for a long-term touristic development is inevitably accompanied by the appearance of certain concepts specific to the creation of the programs which approach explicitly the space problems of the economies and the local communities. Thus, it is mentioned the development of a process of gradual application of the measures which are imperative in the direction of protecting the touristic potential and preventing its degradation, exploiting scientifically and rationally the touristic resources in such a way, that the level of exploitation would not exceed the level of their recycling and regeneration, and the intensity of their direct and indirect relations between tourism and the environmental factors would not exceed the limits of the touristic reception capacity.

The attention will be focused essentially on the environment because it is the element which allows the appearance of some compensation concerning the positive and the negative changes of the components of the welfare function.

In this context, the ecological tourism has deeper capacities, its contribution to a long-term development being unquestionable. This kind of tourism goes along with the rural one, considered to be a new form of tourism, which, at present, develops in the same framework, viewing the development of the touristic activities in accordance with the protection and the preservation of the environment, of the social-economic, historical-cultural traditions.

The improvement of the tourism, implicitly of the social-economic progress, in the context of a long-term development, implies approaching and applying principles and methods which stay at the basis of the formation and use of a fairly complete set of indicators.

The analysis of the touristic phenomenon involves the approach and the application of methods suitable for the situation at the moment, among which are included those presented by Iordache Maria-Carmen in her work "The perspectives of the Romanian tourism in the context of the international tourism", synthesized as follows [8]:

1. - *the historical method*, which has the following features:

- it analyzes the touristic activities from a revolutionary point of view, that is, examining the causes of the innovations, their increase or decrease and the amelioration of the interests;
- it has a limited use, not being used at a large scale.

2. - *the geographical method*, about which it can be said that:

- it points out the location of the touristic zones, the inhabitants' migration as a consequence of the places created by the tourist activity, the changes inflicted on the relief by the tourism, under the form of touristic facilities, the dispersion of the touristic development, the physical planning and the economic, social and cultural problems;
- as it is very comprehensive, this method has multiple positive effects upon tourism.

3. - *the institutional method*, which:

- implies the analysis of various intermediaries and institutions which carry out touristic activities (state institutions, touristic agencies);
- requires the investigation of the organization, working methods, problems, costs and economic localization of the touristic agencies, which act on behalf of the client, by buying services from the airline companies, companies which rent cars, hotels, etc.;

• the advantage resides in the elaboration of booklets, guides, yearbooks and statistical-tourist breviaries by various specialized institutions, which are widely used;

4. - *the interdisciplinary method*:

• is the result of the interference of the diverse domains with which the tourism has a direct or indirect link;

• the interdisciplinary nature of the touristic studies, their reciprocity and mutuality has the following shape:

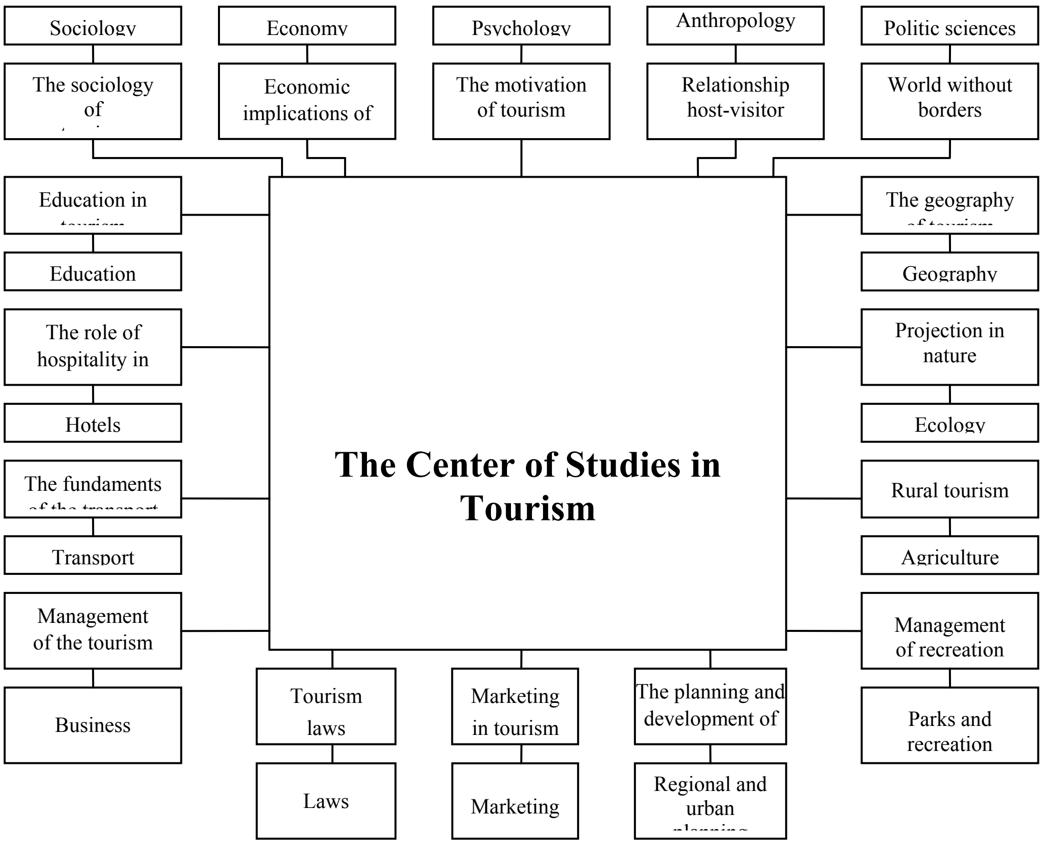

Figure 1. - The study of the discipline and method chosen in tourism
Source: www.world-tourism.org.

5. - *the sociological method*, has the following characteristics:

• studies the touristic behavior at individual or group level, and also the impact of tourism on the society;

• examines social classes, habits and customs of the hosts and visitors (sociology of the rest).

6. - *the product method*, which:

- implies the study of the various touristic products, how they are produced, capitalized and consumed;
- because its application supposes enough time spent, this does not allow obtaining a fast result regarding the touristic phenomenon.

7. - *the economic method*, supposes:

- the examination of demand, supply, payments balance, currency rate exchange, employment, expenses, development, multipliers and other economic factors;
- the creation of the necessary frame for the tourism analysis, for its contribution at a country's economy and at its development, excluding the aspects regarding the environment, the culture, the psychology, the sociology or the anthropology.

8. - *the management method* is oriented towards:

- the microeconomic level, so towards the company;
- the concentration and highlight of applying management-marketing activities in the frame of touristic firms, which should include market, prices' studies, advertising.

9. - *the method of systems*, presented as follows:

- it is composed of a set of interconnected groups, coordinated to form a whole organized to reach the proposed objectives ;
- integrates the other methods, because it treats the aspects both at microeconomic and macroeconomic level, being considered an all-comprehensive method;
- examines the competitive environment of a touristic company, its market, its links with other institutions, with the consumer and the interaction between company and consumer, as well as the whole touristic system of a country, its political, economic and social connections.

The indicators' system which must converge in an almost complete set has been analyzed by the OCDE forum which considers that its efficiency is higher if the information source is wider and diversified. This type of established indicator which has been proposed is diagrammatically presented like this(figure 2):

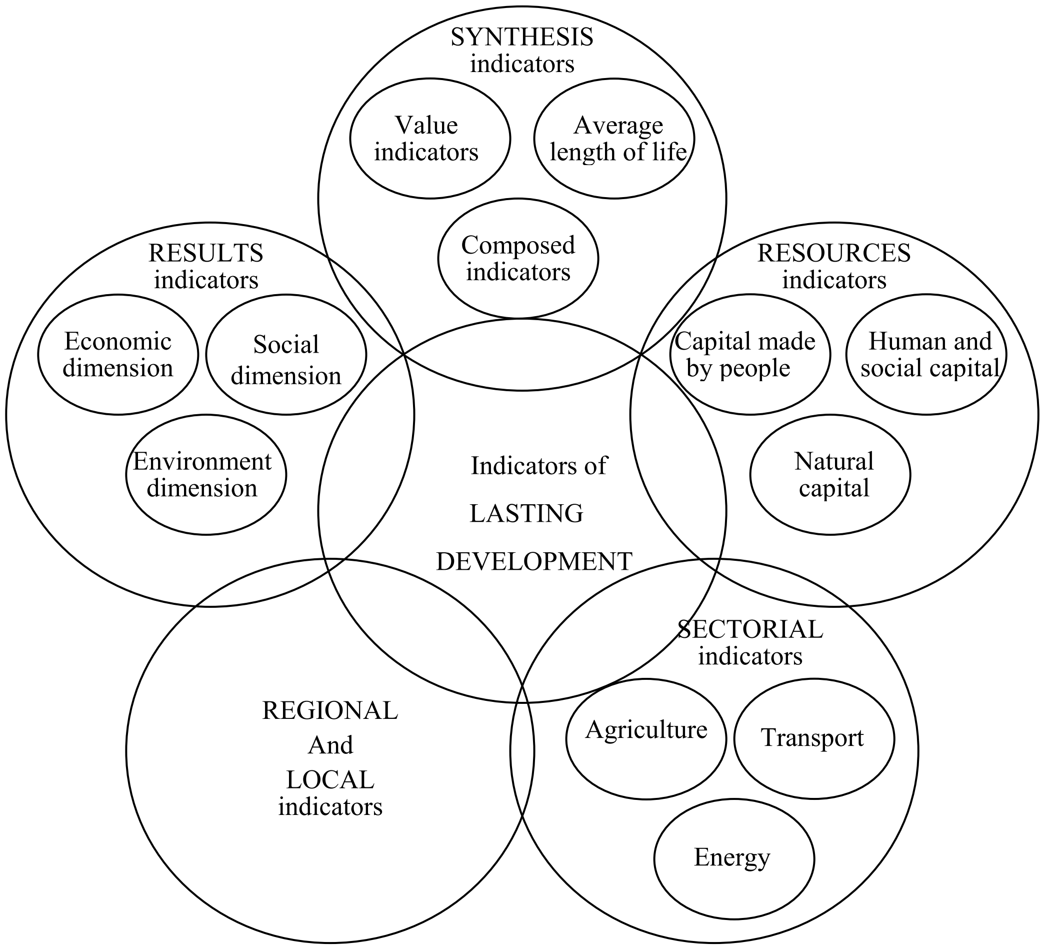

Figure 2 - Indicators of lasting development

It supposes that the efficiency of the presented indicators' system allows their distribution on five levels:

- - basic level, that includes ***regional and local indicators***;
- - next level, that includes ***sartorial indicators***, which distinguish both the impact of development and of sectorial politics upon the environment, social conditions and economic efficiency, and the sectorial trends with implications upon them;
- - the third level is occupied by the ***resources indicators***, which analyzes the accumulation process, the consumption of natural, anthropoid and human capital, thus explaining the extent to which the consumptions will affect future opportunities;

- the precursory level to the last step contains ***results' indicators*** recouped on three fundamental co-ordinates: economic, social and environmental. They characterize the trends and quality of the actual development, so it is almost impossible to precise clearly the included indicators.

A proposal for a set of results' indicators is presented in the following scheme (figure 3):

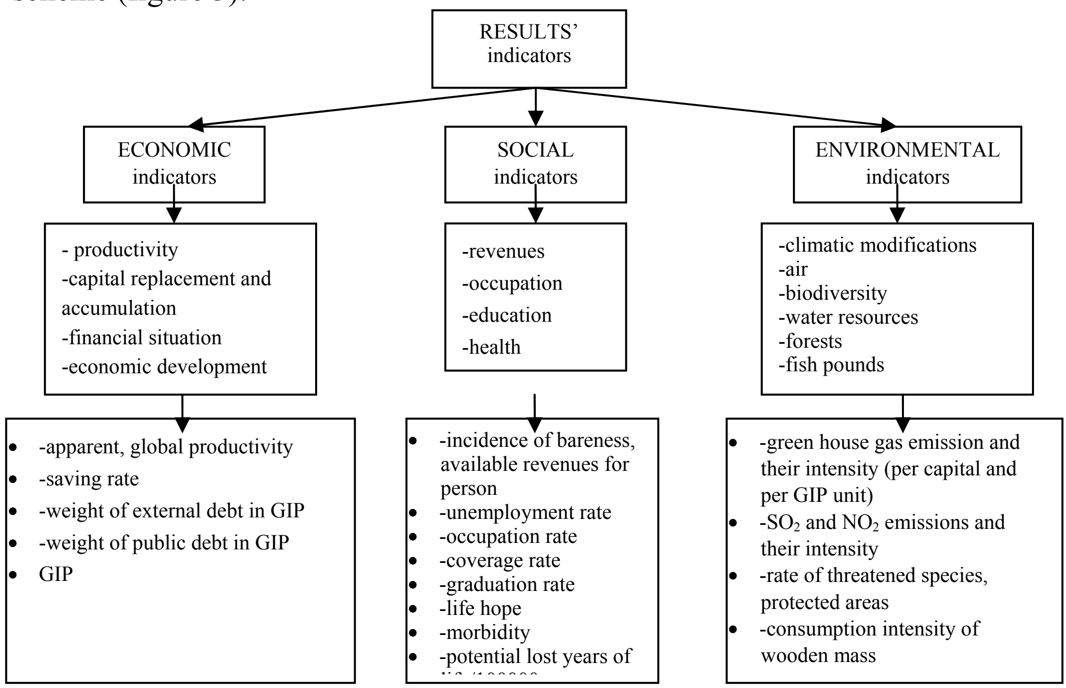

Figure 3 – Results indicators

- the last level, but in fact the most important, is represented by the ***synthesis indicators,*** because they process and interpret information from other levels, giving in this way the ensemble vision of the present achievements.

The main category of indicators [4] that reveal more exactly the situation of lasting development, used at a large scale and at a world level, are:

- value indicators: gross intern product (GIP) and consumption expenses per inhabitant;
- indicators of the economic-social development result: average length of life;
- composed indicators, calculated with the support of important indicators for the undertaken research, using simple or temperate average method.

Considered the most important indicator, the Index of Human Development (IHD), is used for the characterization of human development level of a country. This represents a composed indicator calculated by PNUD (Programme of United Nations for Development) in Reports on human development.

Human development is the process of extending the choice possibilities for people, through their abilities development. At all development levels, those three essential capacities for people are: to have a long and healthy life, to have knowledge and access to the necessary resources for a decent life. These led to the establishment of the following components of IHD:

- ✓ hope of life;
- ✓ teaching level of adult population;
- ✓ gross rate of learning coverage.

In the limits of those three components, IHD had a substantial contribution to attract more attention upon the development process evaluation. Nevertheless, IHD should not be regarded in a restrictive way, as an attempt to concentrate upon a gross index and to include in a simple number the complex realties of development. It should be rather perceived as one of the many components that ensure together the necessary data for analyses of opportunities and obstacles concerning human development policies. That is why IHD was always accompanied by a large analysis, a variety of additional information distinguishing social, economic and political characteristics that influence nature and quality of human life.

Another two types of analysis and appreciation indicators of rural tourism are:

1.- fundamental indicators: those with applicability at the level of all national or international tourism regions;

2.– supplementary indicators: used only in tourism areas (seaside areas, mountain areas, coast areas, unique ecologic areas, national parks, urban environment, cultural patrimony, small islands).

Table 1- Fundamental indicators of lasting tourism

INDICATOR	*SPECIFIC INSTRUMENTS OF MEASUREMENT*
1. - protection of site	Protection category of site after the index of International Union of Nature Conservation (IUCN)
2. - exerted pressure	Tourists' number that visit the site (during the year/month with a maximum influence)

3. - intensity of utilization	Using intensity in peak periods (as number of persons and per ha)
4. - social impact	Report tourists/residents (in season and in rest of the period)
5. – control of development	Existence of a surrounding study method or concrete controls concerning the way the area is fitted out and density of utilization
6. –waists' organization	% of treated used water of site (supplementary indicators can determine structure of other infrastructure of the site, like water supply)
7. – planning process	Existence of a methodical plan for named tourism destination (with a component: "tourism")
8. - fragile ecosystems	Number of rare species or in disappearance
9. – consumers' satisfaction	Satisfaction level of the visitors (using a questionnaire)
10. - local population satisfaction	Satisfaction level of local population (using a questionnaire)
11. - tourism contribution to local economy's development	What represents tourism (%) in ensemble of economic activity
UNIT INDEXES	
A. - support capacity	Type of unit measure that informs before as regards key factors which influence the support capacity of the site, concerning different levels of tourism development
B. - site perturbation	Type of unit measure for impact levels upon the site (to find out natural and cultural particularities under the effects of cumulated constraints of tourism and other sectors)
C. ***- interest***	Type of quality measure of site's particularities that makes it attractive for tourism and that can change with time

Source: "Guide a l'intention des autorités locales: développement durable du tourisme", OMT, Madrid, 1999, p.143

In the same direction, it is acted also, by the Satellite Control of Tourism (C.S.T) initiated by Statistic Office of EU (EUROSTAT), in collaboration with W.T.O and with W.T.T.C.

C.S.T represents the statistical instrument used with the purpose of measuring goods and services in accordance with international standards concerning concepts, classifications and definitions that make easier the achievement of viable comparisons with other industries, between countries or group of countries [8]. This makes the connection between non-monetary information about tourism (motivation of travel, number of arrivals, time of stay etc.) and financial information (visitors' consumption, value of touristic production, etc.), consisting of a set of economic flows (monetary) followed from the touristic consumption units to the ones of production, which are occupied with production or import of goods and services bought by tourism.

Information from C.S.T aims [9]:

- macroeconomic components, to describe economic dimension and importance of tourism in agreement with similar components of economy as a whole and for other production activities and functional areas of interest;
- detailed data about the touristic consumption and how it is assured by domestic supply and imports;
- detailed production accounts about the touristic industry, that includes data on jobs, investments' multiplication etc

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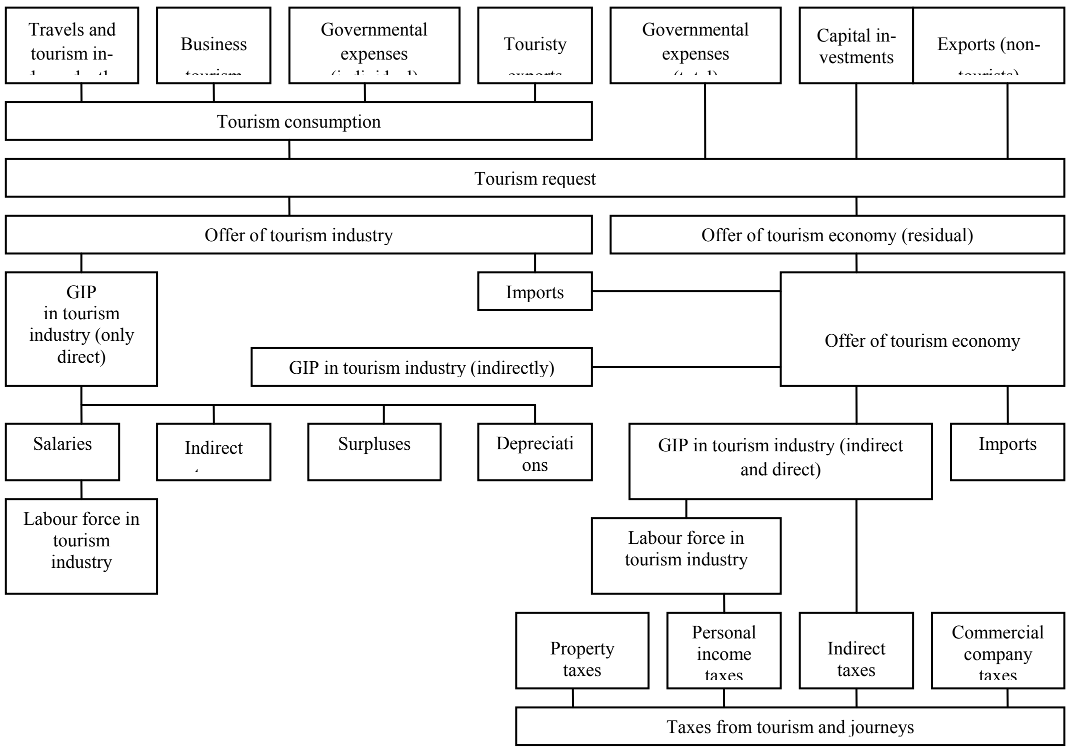

Figure 4 - *Structure of the Satellite Account of Tourism*

Sours: *The tourism satellite account as an ongoing process: past, present and future development*, WTO, Madrid, Spain, 2002

Implementation of C.S.T requires the following next steps:

- ensuring and creation of basic instruments;
- facilitation or creation of basic conditions;
- definition of project's priorities;
- definition of priorities;
- monitoring of development;
- synthesis and comparison of obtained results.

This process of C.S.T's implementation represents the first step in the creation of the incorporated information system concerning the tourism demand and offer, therefore implicitly of rural tourism, its importance consisting in making a priority from the statistics' improvement, as a necessity tackled by touristic national authorities and statistics offices, domestic and from abroad.

Lasting development's measurement represents a necessity in the conditions of the existence of a deep interaction between the natural resources protection, the economic development and complying with the satisfaction of the clients-tourists needs.

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www.world-tourism.org.

MEASURING PRODUCTIVITY IN THE NEW ECONOMY

Mircea Udrea*

Abstract

The neo-classical theory of production identified only two production factors: labour and capital. Paul Romer proposed a change to the neo-classical model by introducing the technology (and implicitly knowledge on which it is based) as an inherent factor of the economic system. The Internet economy offers the possibility to develop the businesses in a totally new way by innovatively using the IT&C. This increase is highlighted by the increase of the Multifactor Productivity in the late 1990's in the USA economy.

„For the leading countries in world economy, the balance between knowledge and resources inclined so much that knowledge probably became the most important factor to determine the living standard, more than land, tools or labour. Nowadays the most developed economies are based on knowledge" [1].

Almost 200 years ago, the industrial revolution replaced the agricultural economy paradigms which had existed for centuries, and then just like today, the change took place almost imperceptibly. As a result of the information revolution, the information era gradually replaces the industrial one.

In the last two hundred years, the neo-classical theory of production identified only two production factors: *labour* and *capital.* Knowledge, productivity, education and intellectual capital were considered as exogenous factors. The economist Paul Romer from the Stanford University, together with other economists tried to explain the causes of a long-term economic growth (exactly what happened in the USA economy between 1980 - 2000) by developing a new theory on economic growth, as the traditional economic models could not coherently explain it. Starting from the results of the models developed by the supporters of the neo-classical theory of production like Joseph Schumpeter, Robert Solow and others, Romer proposed a change to the neo-classical model by introducing the *technology* (and implicitly *knowledge* on

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[1] *World Development Report,1999*

which it is based) as an inherent factor of the economic system. "Knowledge became the third production factor in the most developed economies" [1] .

Romer's theory differs from the neoclassical one in that it establishes several fundamental principles:

- Knowledge represents an important part of the capital. Economic growth is driven by accumulation of knowledge;

- While the neoclassical theory considers any technological development as accidental, Romer thinks that the new technological developments represent the starting point for further innovations and by that it constitutes a main factor of the economic development;

- The technological development can rise the return of investments, which explains why the developed countries are able to sustain the economic growth while the developing countries, even those with unlimited labour and ample capital, cannot attain growth. In accordance with the traditional economic theories there are diminishing returns on investments. The advocates of the new economic growth theory consider that the effects of the non-rivalry and technical platform effects of new technologies can lead to growth and not to a diminishing of benefits in technological investments;

- Investment can make technology more valuable and vice versa. According to Romer, the circle resulting form this statement can lead to a permanent improvement of a country's economic growth rate;

- Romer considers the benefits from licence rights related to new inventions as a factor which stimulates the companies' innovation policy and the investments in technological research and development. The classic economists talk about the "perfect competition" as being an ideal one.

"Knowledge Economy" is that in which the generation and use of knowledge are predominant in creating welfare" [2]. During the industrial era, welfare was created by the use of machines which replaced and multiplied the human labour based on energy consumption. In information era, "workers based on knowledge", the so called "symbol analysts" are workers operating more with symbols than operating machines. Among these, there can be included not only IT&C specialists but also architects, bankers, designers, researchers, professors, political analysts and others. In advanced economies such as that of the USA, more than 60% of workers belong to this category of "knowledge workers".

Why are these technological innovations so important and why didn't they produce a stronger impact on the entire economy? In 1987, the Nobel Prize winner, the economist Robert Solow wrote: "Why the computer revolution is so

[1] Romer, 1986-1990
[2] UK Commerce and Industry Department, 1998.

visible everywhere but in the global economy productivity statistics?”[4]

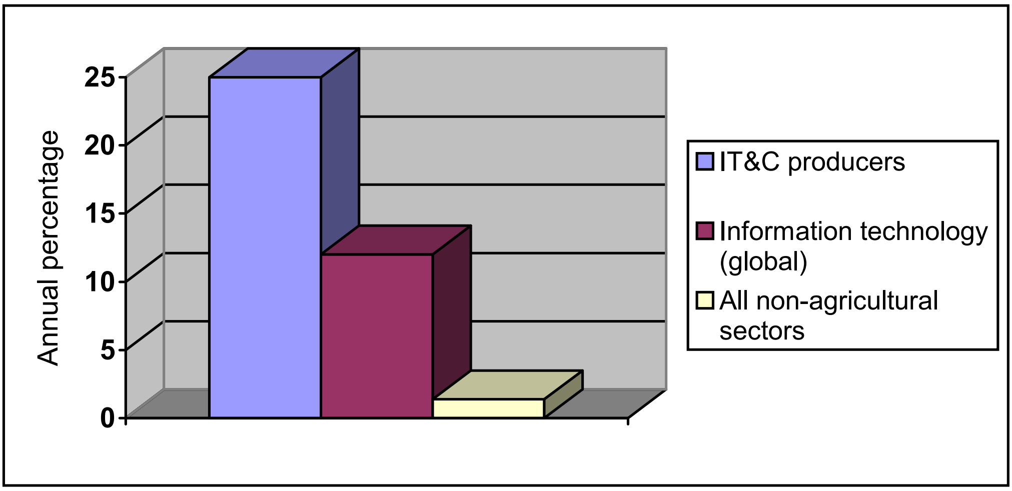
Solow shared the general idea that the IT&C has a high potential to generate an economic revolution. Analysing the economic statistics he noticed a slow increase of productivity at global level.

Fourteen years from the date generally accepted as the beginning of the “deceleration process” in the productivity increase – the year of the great oil crisis of 1973 – until 1987, when Solow formulated the question above, there was noticed an annual growth of 1.1% of the hourly working output in non-agricultural sectors in the USA. As opposed, during the previous fourteen years before 1973, the annual gain in output had been 2.8%. Solow compared this period to the period between 1987 – 1995 and observed a productivity increase of only 0.8% per year in the same economy sectors.

This “productivity paradox” deepened even more at microeconomic level, where the analysts discovered that the investments in the high technology generated substantial productivity increase. The American economist, Erik Brynjolffson emphasized a rate of return on investments in computers and computer networks of over 50% per year.[5] Companies that invested massively in technology and adapted their management in order to use the new technology flourished between 1980 – 1990, while their competitors who didn’t invested in this field, lost.

An answer to the “productivity paradox” comes from Paul David, specialist in the history of techniques, showing that the economy needs a rather long period to restructure itself and to fully benefit from the potential advantages offered by the technological revolution. David claims that the American economy needed 40 years to benefit from the productive potential of the “dynamo”. Electrical power was discovered in 1880 but experiments lasted until 1920 when there appeared the first signs showing the increase of productivity due to the discoveries of Edison and Westinghouse.

Chart 1: Annual productivity in USA, 1990-1998

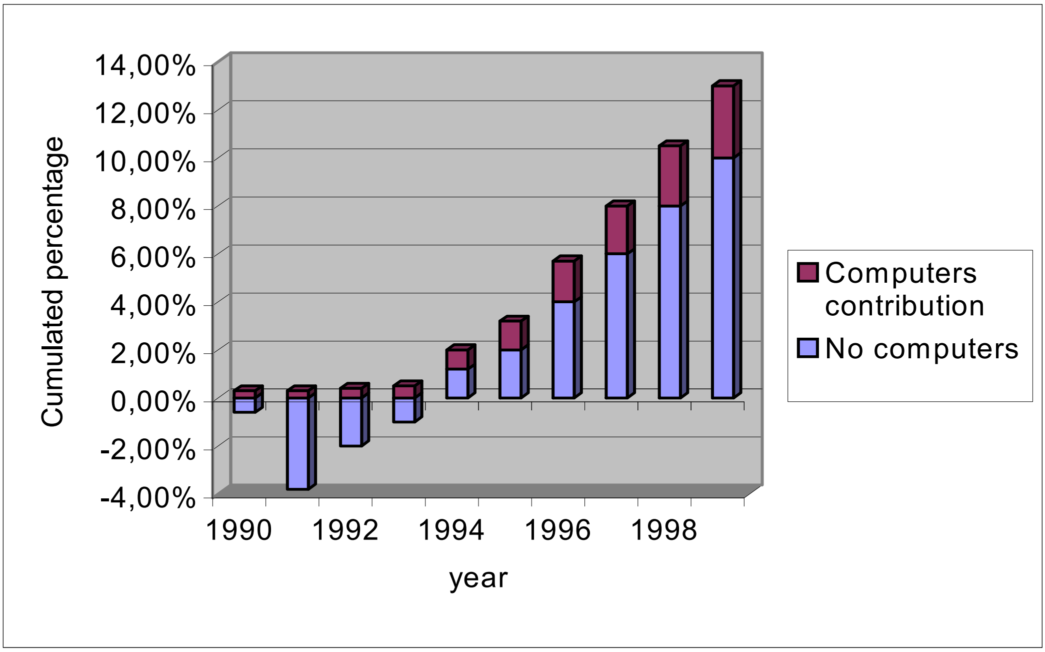


Source: Industry Standard website: http:/www.thestandard.com/

Another possible answer to the „ productivity paradox” is that the specialists in technology and the economic analysts monitoring the global results are analysing two different things. The specialists in technology keep track of the latest innovations in the field and the way they are implemented in the economy. The economic analysts see changes in the global statistics only when the new technologies become common practice. Technically speaking, the same thing happened when both analysts in technology and economy tried to establish the starting point of the industrial revolution. The first took into consideration the inventions and innovations and established 1760 as the starting point, while the second group perceived no significant acceleration of the economic growth until 1840 – 1850 when the results of the industrial revolution were applied on a large scale.

Analysing the GDP per worker in the United States of America in the 1990’s, an even more important contribution of the computer technology was observed. Presently, the slow increase in productivity between 1973 and 1995 is considered to have been exceeded due to the IT&C precisely.

Chart 2: GDP increase by worker in USA in the 1990's



Source: Brent Moulton (1999), „GDP and The Digital Economy" (Washington DC: Dep. of Commerce)

These partial answers are not sufficient to explain the "productivity paradox". The only explanation would be that there are systematic losses in estimating the GDP – losses which lead to an over evaluation of the inflation and a under evaluation of the economic growth in the last decades. The signal in this sense was given by Boskin Commission which concluded that there had been made an under evaluation of the economic growth in the last decades by a percentage of 1% to 2% per year – sufficient to double the productivity in 72 years (for 1%), 36 years respectively (for 2%).

The accurate evaluation of the productivity in the fields of education, health, government, public transport and others is almost impossible. The analysts in economics are tempted to assign zero growth for the sectors they cannot assess.

Analysing systematically, the average labour productivity measures the output per unit input that is the production per hour. For example, if a worker used to make a car in 40 hours and now he is making two cars in 50 hours, the productivity increased by 60% from 0.025 to 0.04. The elements generating this productivity can be: more efficient tools, better working conditions, a better organization of work, new assembling technologies, competitive management or other factors. Consequently, the increase of productivity indicates a more efficient use of other production factors, different from the conventional ones which include input of capital and labour.

An interesting productivity evaluation, especially for the estimation of the effects produced by the increasing contribution of the IT&C equipments, the software and other capital investments, is that evaluating the total working hours and also other capital immobilizations. This type of evaluation estimates the increase in efficiency which is not directly due to a large number of working hours or to the operation of a larger number of machines in the production process. This component of productivity is called Multifactor Productivity (MFP). The Labour Statistic Bureau of the United States uses a combination of inputs and capital in defining the Multifactor Productivity. The Multifactor Productivity which indicates the effects of other residual input factors is called Total Factor Productivity, this indicator measuring the output which is not directly due to all inputs (capital and labour) taken into consideration.

A simple mathematic formula is based on the production function:

$Q = A*f(K,L)$, where Q is the output, K is the input of capital, L is the input of labour and A is an amplifying factor.

The output increases by A for a given input of capital and labour.

$\Delta\ln Q = \Delta\ln A + r*\Delta\ln K + (1-r)*\Delta\ln L$ (r) and (1-r) represent the ratio of capital and labour of the total input, taking into consideration a constant return to scale.

The variation generated by the factor A represents Total Factor Productivity (TFP). In order to calculate the Average Labour Productivity (ALP) which represents the output per working hour, we can express the above equation as follows: $q = Q/H$ and $k = K/H$. The logarithmic expression of these factors per hour becomes:

$$\Delta\ln q = \Delta\ln A + r*\Delta\ln k + (1-r)(\Delta\ln L - \Delta\ln H),$$

or,

ALP = MFP + capital deepening + labour quality

Capital deepening measures the capital stock per labour hour. Capital deepening makes the workers more productive by offering them a higher investment ratio per working hour.

Labour quality is defined as the difference between labour input increase rate and working hours. In other words, the Multifactor Productivity explains the increase not due to capital deepening and the increase of labour quality.

Previous studies on labour productivity revealed a minimum influence of the information technology on the productivity. Baily and Chakrabarti[1] showed that the “computer experts’” labour productivity did not cope with that of the “productive workers” and they suggested as possible causes the incorrect allocation of resources, problems in production evaluation, redistribution of production within the industries.

The incapacity to identify a positive connection between the investments in the IT&C and the measure of productivity gave reasons to express the well-known “paradox of the IT&C productivity” which in essence claims that “the amazing computers” do not produce significant productivity increase.

New studies indicating a positive contribution of the IT&C to the productivity increase appeared starting with 1986 when Bresnahan’ study[2] demonstrated a substantial surplus in the consumer area generated by the investments in the IT&C in financial services sectors. Brynjolfsson and Hitt (1993, 1996)[3] and Lichtenberg (1993)[4] identified significant productivity increase due to capital investments in computers.

Table 1: Average annual contribution in % of IT&C to labour productivity in USA

	1991-1995	1996-1999
IT&C contribution by capital deepening	0,51	0,96
IT&C contribution by MFP increase	0,23	0,49
All other contributions	0,79	1,12
Total	1,53	2,57

Source: Brent Moulton (1999), „GDP and the Digital Economy” (Washington DC: Dep. of Commerce)

A significant increase can be observed in the Multifactor Productivity. It represents the increase of productivity due to inputs other than labour and capital – for example technical and organizational changes, service improvement, process innovations and other similar quality changes. In this sense, the increase

[1] Innovation and Productivity in U.S. Industry ,Martin Neil Baily, Alok K. Chakrabarti, Richard C. Levin *Brookings Papers on Economic Activity*, Vol. 1985, No. 2 (1985)

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of Multifactor Productivity in the 1990's in the USA represents a productivity increase due to the use of IT&C in the production sectors.

Undoubtedly, there is no coincidence between the sudden increase of total productivity and the increase of the Multifactor Productivity after 1995 in the USA economy, suggesting the maturation of the Internet and the interconnection of the IT&C applications in the business environment. During the first years, the information technology consisted in the development of very expensive private applications meant to render more efficient the internal activities of companies (sales planning and record, accountancy, reserve management, quality control etc.). In the late 1990's, there could be observed a significant increase of the PC computation power and a development of the interconnection technologies through networks and technologies such as the Internet or World Wide Web.

Nowadays, the IT&C based on Internet not only generate improvements within the companies but also create a new framework for the interaction with the clients, business partners or distribution chain. The Internet economy offers the possibility to develop the businesses in a totally new way by innovatively using the IT&C. This increase is highlighted by the increase of the Multifactor Productivity in the late 1990's in the USA economy.

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THE DIVERSITY OF LONG TERM FINANCING SOURCES FOR COMPANIES

Georgeta Vintilă [*] **and** ***Mihai Nedelescu*** [°]

Abstract

The leasing it's a form of financing through rent by the specialized financial companies in this operations, of some machines, equipments and some companies goods of the motivation to resort at this form of trade it's in the specific of some operations that they achieve or in the fact that they don't have sufficient founds of they own and borrowed to buy them.

Having in view the multitude of ways to buy or to get only the utilization right of an asset (the leasing, the acquisition with cash from one's own founds, the acquisition through a loan, the acquisition with the payment in rate) the beneficiary has to do a deep analyze of this sources. During this analyze, the most important factor has to be taken in consideration, it's the cost of each way.

1.The comparison of leasing with other financing forms

The leasing represents a private financing way that can be analyzed like a loan and the cost of this financing source can be evaluated under the form of a financial rate. It's applied the present equality values of the equivalent financing sum principle (*the acquisition and the assembly cost of the loaned equipment =* **E**) and the treasure outputs for the future payments for the annual rent (**CH**) and the residual value (**VR**). At equality, in present day, of the two treasure flows (equivalent input and effective output) it's been calculated the actuarial cost of the leasing as a internal efficiency rate (**Kl**).

The leasing cost brings in a natural way and the fiscal effects of this financing. The rent is a deductible expense from the profit tax payment. The part about the repayment of the loaned equipment doesn't constitutes a fiscal economy for the leasing beneficiary, but for the leasing purveyor, in consequently, the leasing beneficiary is not the owner of the loaned good and it's

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recording an opportunity cost, determinate by the loss of the tax economy for the repayment (**A**) of the loaned equipment.

$$E = \sum_{t=1}^{n} \frac{(1-\tau) * CH_t + \tau * A}{(1+K_l)^t} + \frac{VR}{(1+K_l)^m}$$

τ = the profit tax rate

t = 1,..., n years of availability of the leasing contract

m = n + 1

In this conditions, the leasing costs (**Kl**) it's the solution for the upstairs equation that is been calculated after the methodology of the internal efficiency rate. The leasing cost for the beneficiary (**lodger**) it's the efficiency rate for the purveyor.

The decision to choose for the leasing, in report with a banking or bond loan, it's fundamental on the net present value (**VAN**), calculated after the relation:

$$\mathbf{VAN} = \sum_{t=1}^{n} \frac{CF_t}{(1+r)^t} - \frac{VR}{(1+r)^m}$$

Since it's not payable the acquisition cost of the loaned good, in the **VAN** formula it's not included the diminution of the investment value (**I**). There for, the cash flows (**CF_t**) will be determined in accordance with the future profits and the paid rent (the rent it's a deductive expense from the profit payment). The residual value (**VR**) it's paid in the m year, before the end of the life circle (**n**) of the loaned good. The present value it's compared with the loan one, for analyzing witch of this financing sources it's more advantageous.

The selection of financing sources of investments it's very complex as, besides the main criteria about the capital secured cost, acts a series of restrictions for the access at the capital market, the financial situation of the company, the motivation of the leading personnel of the company. If we refer to the last condition, if the employer of the company has all the assets, then he owns the business and he is responsible for all the decisions, good or bad. In this conditions, he will not approve the capital increase through the sale of new assets to the public. If it doesn't have the possibility to buy himself, then he will prefer other financing sources.

There for, the access to the bond loans doesn't have than a low number of companies, respectively the ones that offer a sufficient guarantee for thus pledges in presence of the public, in plus, the bond loan it's very complicated from the formality's point of view.

Most of the companies are not in the stock market and they don't have the possibility to negotiate the titles through the stock market. So, it doesn't have any other way but the auto financing the usual banking loan, the leasing or the assets sale.

The operation cost in the financial leasing case

In this case, besides the price of the asset acquisitioned by the leasing company, the beneficiary has to pay the interest perceived by the company, a tax on the contract and the assurance achieved between the leasing company and an assurance company. The cost of the leasing operations (**CTL**) for the beneficiary (the value of the leasing contract + assurance) is: **CTL = Pa + $\mathbf{Dob_{sl}}$ + Tc + Casig**

Pa = acquisition price

Dob_{sl} = the interest perceived by the leasing company

Tgest = the administration fee

Casig = the good's assurance cost

The CIP price of the acquisition asset (Pa)	120.000 USD
The interest perceived by the leasing company (Dob_{sl})	27.140 USD
The administration fee (Tgest)	4.800 USD
The good's assurance (Casig)	9.600 USD
The total cost of the financial leasing operation	**161.540 USD**

This represents with 4.150 USD more than the acquisition price. But, an alike analyze is not conclusive because it doesn't take in consideration the fiscal economy and the actualization. In the beneficiary decision for the achievement of a leasing contract to other ways of acquisitions detriment has to be taken in consideration by **accumulation of the net present cost.** This is obtained through the diminution of the total cost with the fiscal economy, all bringed to the present day at the beginning of the operation.

The cost for the leasing operation for the beneficiary is of 161.540 USD.

Deductible expenses = Repayment + Interest + administration fee + Assurance

Deductible expenses = 48.000 + 27.140 + 4.800 + 9.600 = 89.540 USD.

Not deductible expenses = 72.000 USD

At the establishing of fiscal economy has to be taken in consideration the deductive and no deductive expenses. In the financial leasing contract's case, the deductive expenses done by the beneficiary are: Repayment; Interest; The contract tax; expenses with assurance.

The month repayment is been calculated reporting to the good's value (the CIP price) at the normal life circle (60 months). This repayment is been reflected in the main frame(in the leasing rate frame), the rest represents an non deductive expenses.

Thus, in the first month: The main = 2.435 USD, from witch:

Repayment = 2.000 USD and The non deductive expenses = 435 USD

So, on the following of the two years how the leasing contract last, the repayment value is of 2.000 USD × 24 months = 48.000 USD, so the beneficiary repays the good in proportion of 40%.

The interest paid by the beneficiary to the leasing company, on the length of the contract is calculated from the addition of month interest. Its value is of 27.140 USD, that is 17.338 USD in the first year and 9.802 USD in the second year.

The assurance expenses represent 4% from the good's value. So, as it can be observed, the present value of net expenses done by the beneficiary for a present rate of 13% is of 131.249 USD.

If it's following the distinguishing of **total present expenses,** then it will be added at the total present expenses and the actualization tax on the profit is obtained 166.270 USD.

We observe that a calculation surprises the beneficiary's effort until the third year when he will pay the residual value. If it's compared the leasing through the upper mentioned criteria angle witch other financing sources of the company it will have to be taken in consideration the fact that this criteria it's not distinguished the fact that the beneficiary has repaid a part of the asset than through the way in witch it was established the profit tax.

The cost of operation in the operational leasing's case

In this case, the whole expense is fiscal deductive. So, in the operational leasing's case this has the value of 111.459 USD. It has been found that in the operational leasing's case, the present value of net payments done by the beneficiary is much more lower than in the financial leasing's case with 19.754 USD, that represents appreciatively 16,5% from the acquisition value of the asset.

Net present payments done by the user

Year	Payments done	The fiscal economy	Net payments	Actualization factor $1/(1+0,13)^h$	Net present payments
0	92.388	23.097	69.291	1	69.291
1	63.588	15.897	47.691	1/1,13	42.204
2	-	-	-	-	-
Total	**155.976**	**38.994**	**116.982**	**-**	**111.495**

The leasing cost compared with the good's acquisition with cash payment

The value of money immobilization (**CT**) generated by this variant of acquisition of good is equal with the acquisition price (**Pa**) witch is added the income tax (**Imp**) and assurance expenses for the first year of functioning (**Casig**).

CT = Pa + Imp + Casig

Imp = Pa × the impose quote of profit and **Casig = 4% × Pa**

The fiscal economy generated by tax for the repayment from the month in witch is bought the good is Fiscal ec. = Am_l × the impose quote of profit

Net cost (**Cnet**) it will be **Cnet = CT – Fiscal ec.**

In the study case analyzed, the beneficiary will immobilize the whole sum of 120.000 USD that represents the CIP price of acquisition of the good in witch it will be added the profit tax and the expenses with the good's assurance.

The property right will go to **the beneficiary** in the moment of the good's delivery. There for, the beneficiary will pay the value of the tax for the payment in advantage like this:

From the sum of 120.000 USD, the beneficiary will take back on costs only 2.000 USD (120.000/60 months = 2.000), the equivalent of repayment of good on the month in witch is the payment done, the difference of 118.000 USD will represent the income tax.

The beneficiary will pay to the state the profit tax of 29.500 USD. So, in the good's acquisition month, the beneficiary will pay 120.000 USD the value of the good plus 29.500 USD the value of the tax owned to the state for this transaction plus the assurance of 4.800 USD, witch means a total of 154.300 USD.

The cost of the leasing compared with the good's acquisition through the banking loan

This variant of acquisition (financing) even if is extremely frequent in the economic practice presents a series of inconvenience. If, the beneficiary chooses this variant, we will show next the calculation relations for the impose condition by the bank in evaluation of the financial effort of the beneficiary.

The total financial effort (**TP** – total payment) is equal with the sum of net present cost and other expenses: **TP = Cnet + Other expenses** where:

Present-day coefficient (**a**) = the annual banking interest (**Dob**). The present-day sums it will be done with a present-day coefficient equal with the banking interest rate.

Cnet = Ctot – Fiscal ec.

Ctot= Dob + Cgest + Cfez + Casig + Cy + Rsc + $\mathbf{Ap_{fin}}$

Fiscal ec. = Cded × the impose quote of the profit tax

Cded =Dod + Cgest + Cfez + Casig + Cy + Am

For the analyzed study case we will suppose the following data:

- the credit value represents 80% from the investment value, the rest of 20% represents the one's own contribution of the beneficiary;
- the beneficiary has to endorse with a good of witch value is twice as big in value than the loan's value;
- the beneficiary will do the assurance (4% from the good's value). For the second year, the assurance will be taken at the value remained no repaid (96.000 USD). The normal life circle of the good is of 5 years, and the repayment will be done in line;
- besides this assurance, the beneficiary has to realize the assurance of the good that it's endorsed in percent of 7% of it's value. Supposing for the easing of calculations that, the endorsement value is equivalent with 240.000 USD. Usually, the collateral size is equal with the loan size plus total interest (eventually plus a risk percent of 20%);
- the administration fee asked by the bank (3,9% from the loan's value);
- the expenses with the achievement of the efficiency study it's at the value of 500 USD;
- the interest rate at foreign money is of 13% per year;
- the loan is on a 2 years period;
- so, the loan value will be 96.000 USD (80%), the rest of 20% representing the one's own contribution;
- the net present cost of the good's acquisition through the contract with a banking loan is of 128.376 USD

We observe that the net present cost doesn't include the tax owned to the state by the beneficiary for the 20% contribution from the good's value covered from one's own income and not from the expenses done from income tax. Supposing that the profit tax its of 16%, and the repayment of the good for the month in witch the payment was done its of 2.000 USD, results that the owned tax will be 5.500 USD. As this will be paid in the first year, the total net present cost will be equal with 128.376 + 5.500 = 133.876 USD.

There is a way to take things and is: if we follow to identify **the total expenses** that the beneficiary will have to do in the 2 years of cash on delivery loan (minus the maintenance expenses of the good) we will do the next calculation – **total of payment** will have the **total of expenses** done (one's own contribution, expenses with the efficiency costs, with assurance and guarantee, with interest and cash on delivery rates, administration fee), on witch is added **the tax owned to the state** for the expenses done from income taxes.

In conclusion, from this angle of things, the total present payment that was done by the beneficiary in the loan's acquisition case will be of: 164.649 USD (148.089+ 16.560).

The leasing cost compared with the acquisition with payment in rate

In the economic practice are very few companies that sell things of great value in rate because of the high price of these and the risk of failure to pay of buyers (the buyer becomes owner in the moment of good's delivery).

Supposing that exist some suppliers that accepts the delivery with the payment in rate of good in the condition of payment in advance, of assurance from physic and financial risks and achievement of a collateral right of guarantee or of imposing of an endorsement.

The calculation of CASCO bonus assurance its done at the acquisition value in the first year, and in the second year the value remained not repaid, and the assurance bonus of financial risk at the acquisition price for both years. Taken in consideration the net present cost (129.595 USD) we will see this variant of acquisition its less advantage compared with the acquisition of a credit. If we will consider the total payments that it will be done by the beneficiary 148.457 + 28.009 = 176.466 USD, we will get to the same conclusion.

In calculation it wasn't taken in consideration the tax for the advance of 40% witch is paid from income taxes. It will minimize the repayment of 2.000 USD for the first month after the acquisition of the good after the advance value, it will multiply with the profit rate and it will obtain: 11.500 USD. Its added this sum at the net present cost obtained and results the total net present value: 141.095 USD.

The comparison of leasing with other forms of good's acquisition

A. The comparison of the leasing with the cash

Analyzing the two variant of acquisition of a good we observe that its difficult compare the total payments done by the beneficiary at the good's acquisition in cash compared with the leasing operations if its not taken in consideration the same period of time as the leasing.

In this case, we will have to take in consideration and other elements of expenses that accompany the good's exploitation for the equivalent period (at less the CASCO assurance for the second year is of 4.800 USD). The biggest impediment of the acquisition variant of a good is the fact that has to dispose of liquidities. Are frequently the situations in witch the acquisition in cash goes to an financial effort less compared with the leasing, but supposing to rally the achieved founds in previous periods and not the one's achieved from the goods exploitation.

B. The comparison of the leasing with the banking loan

For the analyzed study case after the net present cost criteria is recommendable the banking loan with the condition of existence of financial bonity and of necessary guarantee. If its taken in consideration the total present payments, we will see that still the loan is preferred (164.649 < 166.270). the explications comes in fact that the leasing company is financing the goods acquisition through banking loan. All the expenses to the occasioned by the loan are recuperated through redevence that has its profit. As the structure of expenses for banking loan is similar to leasing we will analyze the conditions in witch the leasing is to be preferred the loan only under this criteria.

The leasing interest is much bigger that of the bank and the contact tax is equal with the loan's administration fee. There for, if the leasing company would finance the operation one's own contribution and not through loan, could reduce the interest perceived from the beneficiary, and the leasing operation could be more attractive then the loan. Yet, between the dates obtained in upper formulas it doesn't exist a difference to discourage the beneficiaries.

C. The leasing comparison with the payment in rate

And in this case, after the net present cost criteria, the leasing is much less attractive although the difference is very low. If its been analyzed after the total present payment criteria is much more advantageous the leasing (166.270 < 176.466). The comparison with this variant of acquisition its difficult out of two reasons: in practice are few companies with sales in rates for goods with high values and, if they do it, they ask for the assurance for financial risk or banking guarantees, for real estate. The result of the study case can be in the leasing operations advantage if the asked advance is zero.

In conclusion, it can be observed that the leasing's advantage from the other forms of good's acquisition it is not in the volume of immobilizations but in the facilities offered by the operations assembly. If the interests asked by the leasing companies are lower, then and under the immobilization's volume angle it will be much more advantageous the leasing.

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GLOBALIZATION vs. DEVELOPING ECONOMY

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Abstract

Economic reality worldwide is marked by the evolution of globalization. This process entails effects that are perceived differently at national economy levels, function of their degree of development. We will proceed by attempting a survey of aspects pertaining to the relationship between globalization and developing economies, stressing on internationalizing Transnational Corporations and its effects.

1. Globalization – approaches and concepts

Internationalization, globalization, and regionalization - these are all concepts that make up contemporary reality. According to specialists, the above-mentioned concepts have seen various approaches. If globalization and internationalization are sometimes deemed synonymous, on other occasions analysts see globalization as a mere stage in reaching internationalization.

Subject to long scrutiny, globalization has turned into an objective, unprecedented phenomenon in history, through its scope and evolution. At the same time criticized and praised, it nonetheless follows through with its evolution. Albeit evincing negative aspects, it also comprises important ones providing balance and welfare. Globalization has emerged and developed following an unprecedented tightening of competition at all levels: economic actors, states, regions.

Market liberalization in developing countries, even if it has affected domestic economic activity, has brought about benefits for poor consumers, by increasing their access to cheaper goods and in larger quantities. Proponents of globalization view this reality as a progress. Yet to skeptics, the deepening chasm between the rich and the poor is "an attack to democracy and welfare". Critics accuse developed countries of hypocrisy since they have forced poor states to

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adopt an open market policy, by doing away with trade barriers, yet without reciprocating.

Some analysts feel that when setting up globalization priorities, poor countries are always the ones standing to lose or to gain a low benefit in terms of economic growth. The effects of globalization differ in terms of size and focus, their approach always brings about different and even conflicting stances. Worldwide anti-globalization and anti-regionalization movements are well-known, amassing impressive ranks of supporters. Former UN Secretary General, Butros Butros-Ghali, would remind us that "we live amidst a world-scale revolution… Our planet is under the pressure of two giant, opposing forces: globalization and dissolution." On major source of worries stems from the increasing world population, while resources, most of which limited and irretrievable are approaching a critical point. In this context, the only solution to problems is globalization. The whole universe is caught into the thralls of a revolution, a transformation of present reality that spares no one. To most nations, globalization is a forcefully imposed process they cannot elude.

The principles underlying this process are set up by the great economic powers. To the US, globalization is an ongoing process supported by the political and economic elite. Through its economic power, the US has turned into a keeper of order in the chaos of global interdependence. Against the background of globalization, the US rules the roost on the financial market and in international trade, having all means through which to exercise its world super-power attributes.

In contemporary economists' opinion, the world should be an organized system, governed at global level, where competition among the main power poles – the US, EU and Japan – should be stimulated. Super powers have an important say in setting up the world's development strategies, with the poor showing their discontent more and more vocally, so that marginalizing them could spark conflicts.

Anti-globalization movements are the response to the position of international organizations that are unfavorable to developing countries' economies and tip the scales in favor of super powers.

The growing terrorist threat during the past few years has drawn attention on the existing cracks when drawing up these policies entailing severe losses. A solution to global problems can only be reached through joint, balanced actions.

Globalization is therefore a highly controversial system. The world economy has seen unprecedented evolutions during the past years. Even economic process cycles have changed, so that coming out of crises no longer spans long periods of time, yet economic efforts and attempts to find solutions are tremendous. Experts claim that any economic growth should not spin out of control since it may entail a huge consumption of natural, human, financial and information resources, part of which are exhaustible and irretrievable, which could lead to natural disasters. Ideally, economic development should be underlain by scientific research focused on the effective use of resources. Research entails high costs that are inaccessible to developing countries. Consequently, while certain states evince an obvious economic growth, others trail at subsistence level.

Optimists claim that, through its very nature, globalization will improve the social and economic situation of every state, even if differently, while pessimists feel that the gap between the rich and the poor will grow ever wider, with no chances of improvement. The overall process should be carefully developed in order to mitigate its negative impact.

2. Developing countries and transnational corporations

Globalization is strongly supported by transnational corporations that make up the bulk of economic internationalization. Economically speaking, corporations make up one of the most important factors of progress.

Transnational corporations are deemed the main manifestation of an authentic global economy. With reference to transnational companies, K. Ohmae stated that these unaffiliated corporations have become the main "driving engines" of an interconnected economy, concentrated in North America, Europe and Japan.

At global level, the scope of businesses has become an essential parameter, expressed by opening up out plants in various areas of the world. Corporate development beyond the borders of the mother company brings about a synergistic approach to operations and finances, aimed at decreasing their vulnerability and increasing their resistance to economic shock. Transnational corporations represent the main actor in international trade, with sales registered by subsidiaries currently making up more than double the amount of world exports.

Corporations have come to change the structure of production factors in many countries as an aftermath of human capital shift, as well as the movement of technology from one part of the world to another, making up a new basis for fixed tangible assets.

An increasingly dynamic development is underlain by a well thought out strategy regarding the use of opportunities provided by the global economic environment. Corporations have always focused their investments in high potential areas.

Developing countries are a good example in this respect, by providing an economic, social and political environment that is auspicious to development. Theoretically speaking, these countries have a series of advantages stemming from corporate investment, embodied in high economic growth levels, increased occupancy, higher living standards and, not in the least, effects visible at the level of balance of payments and trade output.

The issue of foreign trade in developing countries is delicate, since the majority of transition economies are confronted with high trade deficits and problems brought about by economic deregulation.

Economic deregulation entails the liberalization of economic policies, opening up national markets and allowing all types of direct foreign investment. In fact, investments are the main financing source for developing economies worldwide. During the past few years, direct foreign investment has proved to be the steadiest source of financing, as opposed to portfolio investments or bank loans, since they have been less affected by financial crises.

By acknowledging the importance of direct foreign investment, governments open up their economies in order to facilitate the exchange of goods, the access to information, as well as human resource turnover and capital flows.

Corporations' investment behavior is strongly influenced by short and long term changes occurring in the business environment. Recession and economic boom periods affect the evolution of all parties involved. Any change in the world political or business environment will equally reflect on economic performance and, implicitly, on directing capital flows.

Statistics show that in 2001 alone, 208 changes have occurred in legislation pertaining to direct foreign investment in 71 countries. Over 90% of the changes were directed at setting up a more welcoming investment background. Moreover, a large number of states have been involved in signing bilateral investment agreements – approx. 2,100 in 2001 alone. The issues of investments make up an important topic for discussion within the WTO, as well.

Given the situation that is a common occurrence in developing countries, Romanian included, where the State take on a foreign-oriented approach, according to classical and neo-classical concepts, theoretically speaking, the respective country should be recording an economic growth due to effective resource assignment. However, reality proves that, without significant direct investments, generally performed by transnational corporations, exports continue to cling to modest levels because of low product competitiveness on the world market. Competitiveness is closely related to the degree of technological endowment evinced by a country. Sadly, international technology transfers are also performed and controlled by large corporations, which are the only actors with the necessary capital worldwide. Even when developing economies settle their capital problems, domestic activities still evince a competitive advantage of transnational corporations, as opposed to national companies.

Initially, transnationals have focused on fields where the cost margin of production factors was the most significant, but gradually operations have increased, comprising the majority of production fields and factors, which they have drawn into a global competition, oftentimes bearing negative effects on developing economies.

Corporations are doubling their efforts to set up global production networks, mainly through mergers and acquisitions. Actually, a global market for the sale and purchase of companies has emerged, with whole industries being strengthened or restructured at global and regional scales.

Alongside the advantages that developing countries have through globalization and actions undertaken by transnationals, there are also shortcomings, under the form of social and environmental concerns.

Transnational corporations mainly focus on maximizing profits and dividends, therefore outplants are set up only in areas evincing competitive advantages. Keeping these targets close in check, a corporation will operate on a certain market for as long as the advantages provided are at an expected level. Throughout this time, all those involved in the activities of he respective transnational corporation have something to gain. When the out-plant's activity is starting to show signs of decline following an increased level of mobility, the respective operation will be immediately relocated on a more attractive market. Once the operation has been relocated, the former transnational corporation market evinces a decline in its economic activity, under the former of social unrest related to decreased standards of living and increased unemployment in the area. Employees who can afford to follow the company will move away, whereas the rest will remain and cling to the hope that there will be employment for them as well, some time in the future. As far as shareholders are concerned, they are not bound by places, the distance between themselves and the companies whose shares they own bears little importance, the only significant point being the dividends they cash in.

Labour globalization allows large corporations to employ intellectual elite worldwide, with no significant material and financial efforts.

On the other hand, social effects of globalization are also brought about by the increasing complexity of technology and economic activities' nature, which forces people to take on a new type of professional training, lifelong learning that entails constants ongoing intellectual and financial efforts that many people cannot afford. At the same time, advanced technology has cancelled the space and time barriers that people were supposed to overcome when moving from one place to another in order to perform their activities within companies.

Another major issue that heavily features in developing countries is environment pollution. Pursuing profit regardless of consequences, transnationals have got as far as exporting polluting technology to areas where legislation allows it, global reality thus proving that we live within an accelerated social and environmental dissolution.

As world economy is developing, limiting economic growth in order to keep a balance between the former and nature ever more necessary. Production needs to be kept within sustainable limits.

Ideally, sustainable economic development, with a heavy stress on environmental protection should be globally promoted. These principles need to be adopted not only within develop countries, members of OCDE, but also within developing countries, by supporting them in order to set up the necessary legal framework that would ensure sustainable economic progress, based on non-polluting techniques and technologies.

The targets detailed in the present paper are difficult to reach, due to a decreased state power when confronted with corporation pressures.

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THE FEASIBILITY OF THE HUNGARIAN CONVERGENCE PROGRAMME

Judit Szilágyi[1]

Abstract

The paper provides on overview of the Hungarian Convergence Programme (CP) that envisages the path to restore macroeconomic equilibrium during the next three years. The spiralling budget deficit in 2006 made an update of the previous CP inevitable. In the September 2006 version the government shows strong commitment to face up to the fiscal imbalances and structural problems, yet several aspects question the feasibility of the Programme. The paper focuses on the evaluation of the major objectives and their realisation during the first year of the CP as well as on significant technical assumptions and external factors that may constitute a downside risk for the implementation. Besides introducing a corrective fiscal package the Convergence Program draws the outlines of several, long-awaited reforms of almost the entire sphere of the social welfare systems. As the primary focus is on the feasibility of the budgetary consolidation strategy, the paper deals with these reforms only in the context of the long-term sustainability of public finances.

Introduction

September 1, 2006 marked the deadline for Hungary`s first reelected government since 1990 to hand in the national Convergence Programme (CP) to the European Commission. The Programme endorses several painful adjustment measures in a frantic effort to put Hungary back on the balance track and to restore the credibility of the government in Brussels as well as on global financial markets. Besides drawing a scenario for reaching the Maastricht convergence criteria that is necessary for the Euro introduction, the CP also gives the broad outlines of the long awaited reforms of the social welfare systems.

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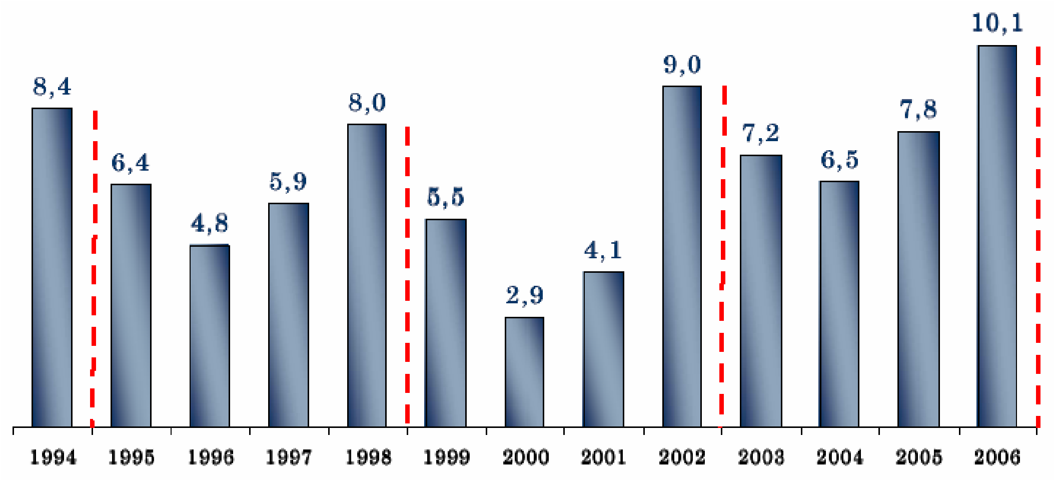
This paper provides an overview of the first year of the Convergence Programme, its macroeconomic background, the major steps and the possible effects. The analysis of the possible future challenges and risks focuses on the years 2007-2009 as this is the key period of the Convergence Programme, at the end of which fiscal balance and sustainable economic growth is expected to be restored. The CP contains only rough numbers for the period 2010-2011, which largely depend on the implementation of the restrictions during the first three years of the Programme. The paper gives only a broad overview of the planned educational, health care and pension reforms and only in the context of the long-term sustainablity of government finances as analysing all these areas and the feasibility of the reforms would be definitely far beyond the reach of this paper.

The background of the Convergence Programme

Election years do not usually enhance fiscal rigour but a roughly 10 % government deficit is still extraordinary. The Convergence Programme may finally break the „tradition" of election cycles that have been characteristic since the 1990s. (see Graph 1)

Graph 1: Government deficit in percentage of GDP, not including FISIM



Source: Hungarian Ministry of Finance

The necessity of the measures outlined in the CP is out of question. The excessive twin deficit as well as the growing debt ratio made the economic path in 2006 unsustainable. Hungary's macroeconomic performance is still the worst in the EU at the moment in terms of fulfilling the Maastricht convergence criteria, which has also created concerns in Brussels. Between 2007 and 2013 Hungary will receive 22.4 billion Euros development assistance from the EU[1] that can be at stake if the country does not show a macroeconomically sound and credible economic program to enhance convergence to the Maastricht criteria.

The EU gave the September 2006 deadline for the submission of the revised Convergence Programme, thus stressing not only the urgent need for reforms but leaving no room for political manoeuvre until the local elections in October.

Originally there were three scenarios to reduce the huge government deficit. The first visioned an extremely rapid adjustment, targeting the 3 percent criteria by 2008. The second, calculating with a relatively slow deficit reduction path, would have achieved this only by 2010. Finally, a third, relatively moderate slope was accepted that made 2009 the target date. This version is probably the most credible and realistic as an even more front-loaded effort would have raised a lot of concern about the feasibility of the Programme, while on the other hand, it was feared that with a relatively slower path the GDP growth rate would be stucked at a level of 2 percent for several years.

The current Programme, last updated in December 2006 still outlines an ambitious plan to reduce the government deficit by 7.5 % (or by 6.8 %, after the corrections in the calculation) by the end of 2009. (See Table 1) Even with this substantial cut, deficit will be slightly higher (3.2 %) than the required 3 % threshold but the government hopes that Brussels will take into account a part of the net cost of the pension reform in line with the revised Stability and Growth Pact.[2] In the case of Hungary, in 2009 this would correspond to 20 % of the net cost of the pension reform or an estimated 0.3 % of the GDP. The majority of the reduction falls within the first two years of the CP (2007-2008), the first year alone accounting to almost half of the decrease. This means an extremely large burden assigned to the Hungarian economy and society.

Table 1: Key indicators of the Convergence Programme

	005	006	007	008	009	010	011
Budget deficit (%							
Primary balance (%							
Gen. govt. debt (%							
CPI (change in %)							

Source: Convergence Programme of Hungary 2006-2010, December 2006 pp. 15-18.

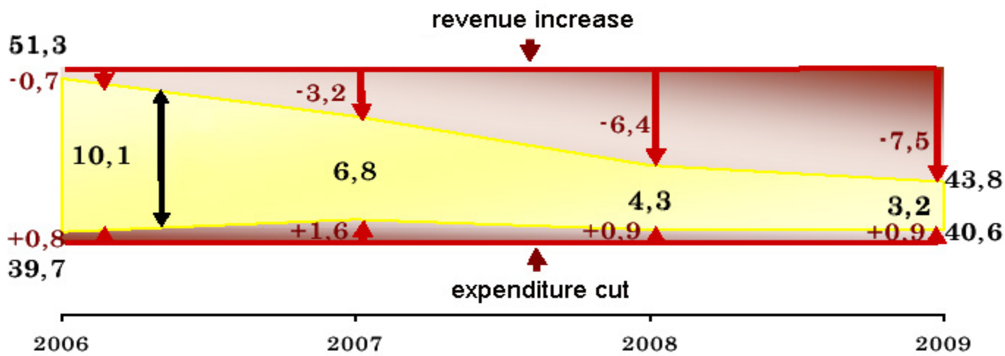
[1] The total sum amounts to approx. 30 billion euros including rural development assistance.

[2] According to Council Regulation (EC) No. 1056/2005, if the general government deficit „[…] has declined substantiolly and continously and has reached a level that come close to the reference value the Council and the Commission shold consider degressively the net cost of a pension reform that includes a fully funded pillar”.

Evaluation of the major elements of the CP

The key factor of the Convergence Programme is the steep and front-loaded reduction of the large government deficit as mentioned above. The Programme has often been criticised for being too focused on increasing revenues and neglecting the expenditure side. (See Graph 2) Revenues will be increased mainly by larger tax centralisation including higher VAT, corporate and personal income taxes as well as the introduction of new taxes (e.g. the property tax). The government has also officially abandoned its five-year tax cut programme that would have lowered budget revenues by around 3 % of the GDP by 2010.

Graph 2: Government deficit, revenues and expenditures in percentage of GDP (compared to the 2006 level without correction and not including EU transfers)



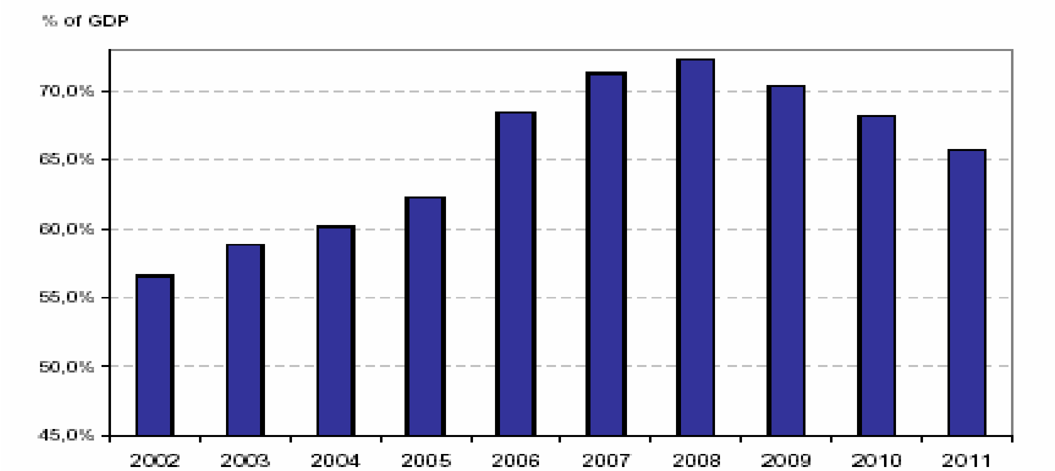
Source: Hungarian Ministry of Finance

Regarding the expenditure side, the idea that the government should start saving money on itself has become quite popular. Public administration and generally governmental organizations definitely deserve some streamlining, which would drastically affect public employment. Approximately 200 public organizations face transformation during the following years and the whole public sector is expected to operate on a 14 % less budget and with about 20 % less employees. This will definitely affect the labor market, although the government hopes that it can be offset by a moderate growth of the business sector, thus letting the unemployment rate increase only on the short run.

The CP broadly outlines the major directions of the long awaited reforms of the social welfare systems. The primary aim of these reforms is not only to cut expenses but also to improve the quality of public services provided by the central or local governments. There is no doubt that structural changes are inevitable, yet there is a lot of social resistance and suspition against the new measures. The complex reform of the educational, health care or pension systems is also on the agenda in old EU member states, however, the Hungarian social systems (and especially the pension system) constitutes an even higher risk regarding the sustainablilty of public finances. Hungary appears to be at an earlier stage of population ageing, and this, alongside with the still unresolved problems of the social welfare systems, threaten with long-term budgetary impacts. There are also voices of concern about the feasibility of the ambitious reforms while focusing on restoring the fiscal balance. Nevertheless, the greatest challenge that the Hungarian government faces nowadays is the successful and socially acceptable redefinition of the role of the state, meaning not only less redistributive and more market-driven solutions but also more effective and well-coordinated action in several areas.

An interesting point of the new Convergence Programme is the revised scenario for the public debt to GDP ratio, which is in sharp contrast with the previous versions. According to the current update of the CP, the gross government dept to GDP ratio is projected to significantly increase in 2006-2008 reaching its top (71.3 %) in 2008. This temporary rise can only be turned around in 2009 with the improvement of the primary balance as well as the revitalised economy and falling yields. Despite not reaching the Maastricht threshold even at the end of the programme period, the government hopes that Brussels would take into account the constantly and steadily decreasing pace of the debt to GDP ratio.

Graph 3: Public debt to GDP ratio



Source: Convergence Programme of Hungary 2005–2009 (September 2006) p. 35.

As for consumer prices, the Programme is highly optimistic by assuming that inflation will only temporarily accelerate during 2007 and than return to the previous path, though not reaching the expected Maastricht level for several years. However, recent estimations of the National Bank have projected CPI as high as 8.5 % for the first eight months of 2007, so the inflation target for this year will probably have to be updated again. On the other hand, minor divergence from the original numbers may be calculated with, as the National Bank itself sets only a mid-term inflation target (3 percent), thus leaving room for adjustment on the short run.

Disinflation in the past few years in Hungary was partly artificial as it was partly due to regulated prices that kept especially energy prices lower than world prices (e.g. electricity, natural gas prices) and the VAT reduction that took place at the end of 2005. In line with the decision to transform the subsidy system for energy, pharmaceuticals, transportation prices as well as to raise the V/AT level of 15 % to 20 %, inflation will accelerate considerably in 2007. A stronger exchange rate and lower oil prices can influence this trend positively but the biggest responsibility still lies with the proper implementation and the credibility of the Convergence Programme as this can keep inflation expectations moderate.

The document is often criticized for cautiously avoiding setting an exact date for the Euro adoption. However, Hungary stands not alone with this kind of mysterious unpredictability in the region. Poland has not even attempted to predict an official date, although there have already been unofficial statements of a 2012-2013 introduction. 2012 may also be the target date according to the new national plan of the Czech Republic, however, nothing seems to urge Prague either. It is still Slovakia that seems most determined to undertake the promise of the previous government about the 2009 accession, even postponing the fulfilment of several campaign slogans with this end. It is an interesting question why and how the once leading Central European group lost its comparative advantages in the ”Euro race”, even compared to the Baltic states.[1]

Although not announced officially, 2013 or more probably, 2014 can be the accession date for Hungary – provided that the measures of the CP will be implemented. Relatively late adoption of the Euro is not necessarily a drawback if policy makers finally realise that not premature, unprepared introduction, but a well-coordinated, predictable and credible pace of accession adjusted to the realistic economic and political capacities serves the country’s interests best.

[1] Though having excellent fiscal indicators, Estonia and Latvia already had to postpone the introduction of the single currency as a result of high inflation rates. It is a common problem of the new member states trying to catch up quickly that due to their overheated economy and extremely high GDP growth rates (approx. 10 % in the Baltic states) they are unable to keep the inflation criterion.

Credibility also remains a key element in determining the behaviour of foreign investors. If government measures are transparent and consistent with the major objectives of the national programs (including mainly the National Strategic Reference Framework besides the Convergence Programme), a relatively short delay will probably cause no direct threats. However, an even further delayed accession may result in the relative devaluation of Hungary's position as well as a rearrangement of foreign direct investments that are vital for the Hungarian economy.

The biggest question remains if the economy can recover from the surgery as quickly as it is supposed to according to the Programme. The CP assumes that GDP growth rates as well as inflation will be affected negatively only on the short run and the economy can return to its previous dynamism as early as 2009. This is extremely important as by 2006 Hungary fell behind in terms of GDP growth rate even among the Central European countries.

Assumptions and external factors

The assumptions of the Convergence Programme definitely include factors of uncertainty that may cause some divergence from the baseline results. There are basically five assumptions of the CP that either seem unrealistic or are far beyond the reach of the government.

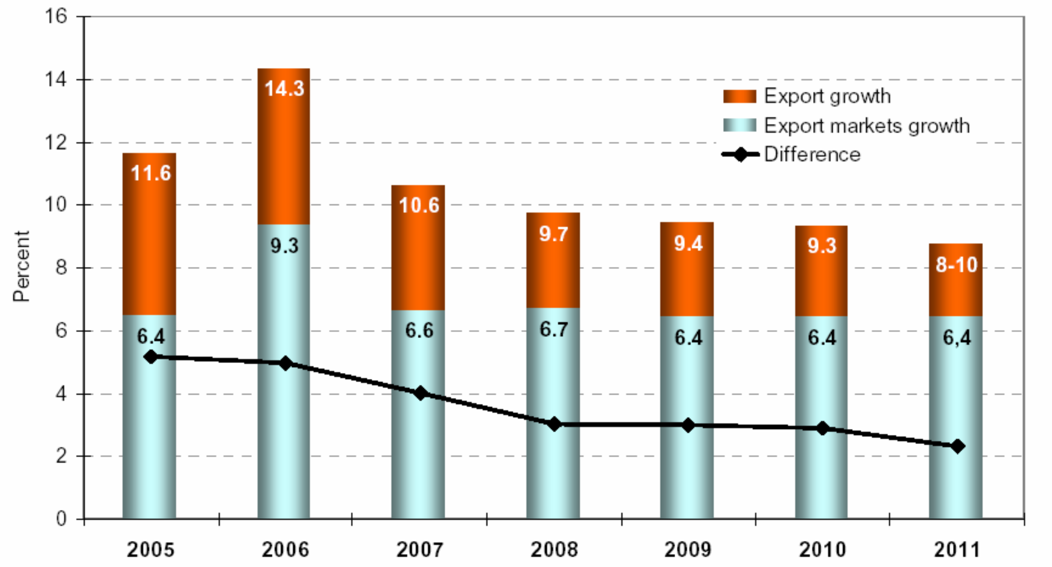
The first factor that cannot be influenced by the government but definitely plays a key role in the realisation of the Programme is world- and especially EU GDP growth. The CP relies on the forecast of the European Commission that assumes a 2.0 – 2.2 percent GDP growth rate for the years 2007-2009. Although this rate seems realistic for 2007 and according to recent projections, the EU GDP may reach even higher dynamism mainly due to the German economy[1], a possible slowdown may pose risks for the implementation of the Programme.

A second and recently overdiscussed topic is the question of energy prices. The Programme calculates with stable oil prices using a model of 70 USD/bbl for the period of 2007-2009. This can certainly be challenged by a sharp increase resembling that of last summer but the government assumes that a 15 USD/barrel difference can be still managed within the baseline results of the Programme. Considering that a possible increase rather affects the current account balance than the amount of revenues, this optimism can be at least partly explained.

[1] As a result of recent positive changes, the September version was slightly reviewed and the actual Program projects 2.2 – 2.4 percent EU GDP growth.

However, there is no reason for such optimism in the case of investments and export dynamism. As apart from capital investments, growth will remain mainly export-driven in the following years, any negative changes may have large spill-over effects. The export projection is primarily based on the growth of external demand that is supposed to remain relatively stable, thus gradually reaching a better trade balance, with a possible surplus in 2011. On the one hand, the Hungarian export is quite vulnerable, with almost half of it originating from short production lines that are placed in Hungary only for a specific phase of the production. On the other hand, external demand and the growth of foreign markets largely depends on the growth of the EU economy.

Graph 3: The growth rate of exports and export markets



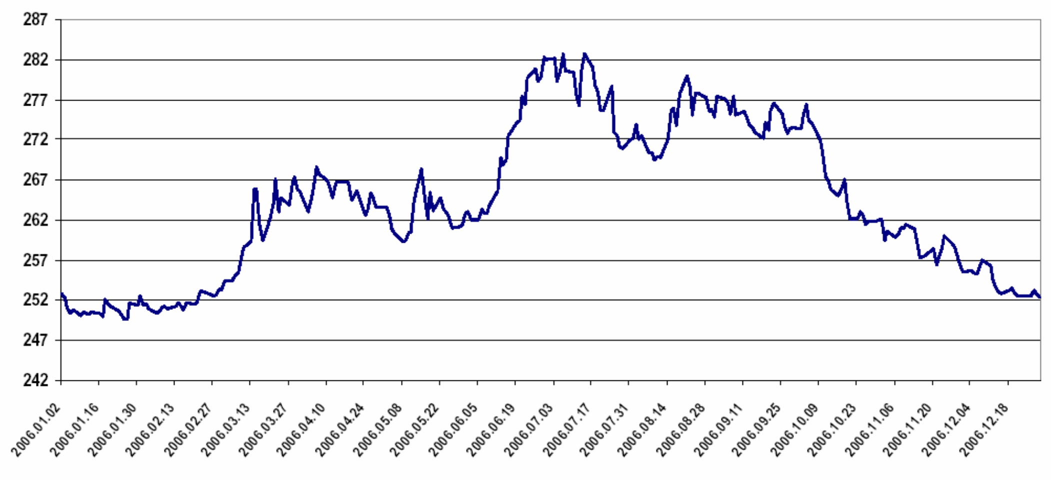
Source: Convergence Programme of Hungary 2006-2010, December 2006 p.10.

As for investments, household income and therefore available resources for investment will decline especially in the first two years of the CP due to the stabilisation measures and a temporarily higher inflation. However, according to the projections, investment ratio will reach 25 % by 2009, which seems too optimistic. The government hopes to enhance investment dynamism with the increased use of EU resources and cofinanced national investment projects, mainly in the fields of transportation systems, renewable energy sources and health infrastructure.

A final assumption of the model is about the exchange rate – the Programme calculates with a technical rate of 271 HUF/Euro for the period of

2007-2009.[1] Since 2001, Hungarian monetary policy has been focusing primarily on inflation targeting, accompanied by a wide-band pegged exchange rate system. The exchange rate may fluctuate against the Euro within a band of +/- 15 %. The national currency was markedly stable until the end of 2005, but fluctuated greatly during 2006, and there were even projections about a possible 300 HUF/Euro rate. However, after the Commission and the Ecofin gave a positive response to the Convergence Programme, the exchange rate began to strengthen indicating the growing trust of the markets. The first two reports in April and September 2007 already calculated with a technical rate of 254 and 251 HUF/Euro, respectively. Following significant appreciation of the national currency in the last few months the debt stock was effected very positively.[2] Thus, the exchange rate seems to pose a smaller threat to the feasibility of the CP but this can change during a three-year period.

Graph 4: The HUF/Euro exchange rate in 2006



Source: Ministry of Finance

A key element of the CP is the projected GDP growth that is partly derived from the assumptions described above. As a result of the fiscal consolidation, domestic demand will decrease sharply in the first two years of the Programme. GDP growth will significantly slow down and the real output level will drop below the potential output. As a result, the output gap will become negative, reaching approximately -2 % of the potential output in 2008-2009.

[1] This data was also slightly modified as the previous version used an exchange rate of 272.5 HUF/Euro.

[2] Approximately 30 % of the debt portfolio is denominated in foreign currency (essentially in Euro), so a 10 % exchange rate change would have about 2.0 percentage point impact on the debt ratio.

According to the objectives of the CP, from 2009 real GDP growth will accelarate and rise to the level prevailing before 2007, which is a very positive scenario (see Table 2 for detailed data). The December version of the CP includes some slightly positive adjustments mainly due to the better global and Hungarian economic performance that gave birth to some even more optimistic projections assuming that the Hungarian economy can reach its growth potential even earlier than expected. However, even with these optimistic assumptions the possible growth sacrifice is significant, leaving a slightly negative output gap even in 2011.[1] This growth sacrifice could be partly reduced by proper adjustment of the national development programs, mainly the National Strategic Reference Framework (NSRF – also called New Hungary Development Plan in Hungarian). The NSRF should focus on such economic programs that can have a positive impact already on the short run and strenghten economic growth by enhancing competitiveness, employment and domestic demand, thus making up for part of the negative effects of the CP.

Table 2: GDP components and growth

annual percentage change

	2005	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Household	3.8	2.4	-0.8	0.0	1.8	2.7	cca.3
Government	0.2	2.6	-1.6	-3.3	1.6	1.6	1.5-2
Investment	5.6	2.8	2.4	4.0	7.5	6.8	6-8
Domestic	**1.4**	**2.0**	**0.3**	**0.7**	**3.3**	**3.7**	**cca.4**
Exports (goods and	11.6	14.3	10.6	9.7	9.4	9.3	8-10
Total demand	5.3	6.8	4.6	4.7	6.2	6.4	6-7
Imports (goods and services)	6.8	11.1	8.1	7.5	8.6	8.9	8-10
GDP (at 2005 year	**4.2**	**4.0**	**2.2**	**2.6**	**4.2**	**4.3**	**cca.4.5**
Potential GDP	4.0	4.1	4.0	3.9	3.9	3.8	3.8
Output gap	**1.3**	**1.2**	**-0.6**	**-1.8**	**-1.5**	**-1.0**	**cca. -0.5**

Source: Convergence Programme of Hungary, December 2006, pp. 9-13.

The Convergence Programme also admits the relevance of the risks deriving from the factors mentioned above. Though it is based on assumptions

[1] Data and estimation is based on the Convergence Program that uses the Cobb-Douglas production function for the calculation of the potential GDP following the methodological recommendation of the Commission.

and estimations achievable with the highest certainty, calculations have also been made for different macroeconomic tendencies. The September version introduces for the first time alternative scenarios, namely four, reduced to three by the December update. They are based on mainly two variables: domestic and external demand.[1] The more positive and more negative projections basically fall within a +/- 0.3 percent band from the baseline scenario in terms of GDP growth difference, which means a maximum of -0.3-0.4 percentage point divergence for the budget balance (in percentage of GDP). According to government projections, this risk can be offset with reserves and reserve measures built into the budget. These include the newly introduced property tax or the equilibrium reserve that both account for approximately 0.3 percent of the GDP but are not shown on the revenue side yet.

Evaluation of the first year of the Programme[2]

The government has to report every six months the results and drawbacks of the Convergence Programme to the Commission and the Council, also including the implementation of the structural reforms. The first report was due in April 2007 and adopted by the Council in July, while the second was just submitted at the end of September. Both reports stress that macroeconomic tendencies have developed largely along the path envisaged in the Convergence Programme, and in certain aspects, they even intruduce some slightly positive upgrades. (See Table 3)

Table 3: Macroeconomic forecasts for 2007

	CP 2006 Dec	***2007 Apr***	***2007 Sept***
GDP growth (%)	2.2	2.2	2.2
CPI (%)	6.2	7	7.5
Budget deficit (% of GDP)	6.8	6.6	6.4
Gross govt. dept (% of GDP)	67.5	66.2	65.5

Sources: Hungarian Ministry of Finance: First and Second Report on the measures taken in response to Council recommendation of 10 October 2006 under Article 104(7) of the Treaty

[1] The scenario based on higher oil prices and higher inflation was removed from the December update.
[2] Based on the First and Second Report on the measures taken in response to Council recommendation of 10 October 2006 under Article 104(7) of the Treaty (Published by the Hungarian Ministry of Finance)

As for the GDP growth rate, the large-scale fiscal consolidation has resulted in expected output losses. In 2006 GDP growth rate was 3.9 %, which is only slightly below the potential growth rate, however gradually decelarated during the year and especially in the first half of 2007. For the second quarter, growth rate has only reached 1.2 % in contrast to 2.7 % for the first quarter of 2007.

On the expenditure side, GDP deceleration was caused mostly by the marked drop in final consumption, in particular in social transfers in kind, which were reduced significantly (by 9% in the first half of the year) by the cuts in health care expenditure. Despite the more than 6% real wage drop, household consumption expenditure has not declined considerably: households smoothed their consumption significantly. However, the most direct effect on the society has probably been the significant fall of real wages. In the first six months of 2007, the real wage drop was more than 9% in the public sector and around 5% in the private sector. The higher-than-expected wage growth along with the higher employment growth in the private sector was partly due to the whitening of the business sector as a result of government measures taken in late 2006.

In the first half of 2007, both exports and imports increased dynamically; net exports continued to have a positive impact on GDP growth (1.4%). No drastic drop in external demand is expected for the second half-year, thus in the whole year, export may increase by about 15% and import by about 12%. The balance of goods and services trade is expected to produce an export surplus again, mostly because of the approximately 1 billion euro improvement in the trade balance over the previous year figure. Relating to these developments, the current account deficit may also be lower than the level indicated in the Convergence Programme, only slightly exceeding 4% of GDP.

The investments in the economy were lower than projected in 2006 and their dynamism in 2007 continues to be surrounded by uncertainty. A decline is likely in state-financed investments, and no growth is projected in housing construction, a driving force behind the investments of households. In contrast, high capacity utilisation, growing EU transfers and a favourable export outlook may all have a positive impact on the willingness of businesses to invest.

In the first eight months of the year, the average rate of inflation was 8.5%. This trend is roughly in line with expectations, but it is above the forecast, mostly due to the fast price rises of certain non-processed food products. On the whole, the government measures of last autumn and early this year had the calculated inflationary effect.

The most visible positive progress is in the fiscal numbers. The budget act set the general government deficit for 2007, in accordance with the Convergence Programme, at 6.8% of the GDP. The report on the implementation in April, reckoning on the positive changes that were emerging at the time, set out a deficit forecast of 6.6% that was further upgraded to 6.4 % in the second report. This was attributable to the surplus of tax and contribution revenues, which increasingly appears to be a permanent development, and to the tight control on expenditures, which in certain areas proved to be even lower than expected. Along with the lower deficit, the new projection contains a 0.4% of GDP higher risk reserve and central equilibrium reserve than the April figures.

There are also signs of a possible slow-down of the rise of the public debt ratio. By the end of 2007 the September 2006 CP forecasted a 70.1 % debt ratio that was modified to 67.5 % in December and to 66.2 % in the April report. The last update showed even more positive intra-year developments. The exchange rate appreciated considerably, therefore, the technical exchange rate assumption used for the debt forecast is even stronger than the one in the April report. The actual debt ratio for the first eight months of 2007 was 65.5 % of the GDP, thus projecting a more modest rise than expected by the Convergence Programme.

On the whole, both government reports state that progress was made along the path assumed by the Convergence Programme and it seems that the most crucial part of the front-loaded deficit reduction will be fulfilled by the end of this year. The Commission and Council opinions have also affirmed these positive developments, however warned that only a consistent, tight fiscal policy and coherent structural reforms may guarantee the long-term sustainability of the processes.

The feasibility of the CP

Besides the major challenges arising from the internal and external factors described above the key element of the Convergence Program is credibility. Credibility has several dimensions and aspects, the first of which is international. Although several slight downgrades in terms of credit rating have shown diminishing international confidence in Hungary, the Commission as well as the Ecofin indicated their support for the CP by the quick approval of the Programme. However, Hungary has to pay more attention to the consistency and the implementation of the measures. Especially the September 2006 version marked a large and negative update to the previous programmes while the December update along with the first and second reports in 2007 meant some slightly positive changes. (See Table 4)

Table 4: Divergence of the September 2006 CP from the 2005 update

		2005	2006	2007	2008	2009
Real GDP growth (%)	CP 2005	4.2	4.3	4.1	4.1	-
	CP 2006 Sept	4.1	4.1	2.2	2.6	4.1
Govt. deficit (% of	CP 2005	7.4	6.1	4.7	3.4	-
	CP 2006 Sept	7.5	10.1	6.8	4.3	3.2
Gen. govt. gross debt	CP 2005	61.5	63.0	63.2	62.3	-
(% of GDP)	CP2006 Sept	62.3	68.5	71.3	72.3	70.4

Source: Convergence Programme of Hungary 2005–2009 (September 2006). p. 63.

On the other hand, domestic credibility and legitimacy of the CP is a more delicate issue. The success of the fiscal tightening will largely depend on the social capacity and willingness to accept the increased burden. As the example of the Slovenian inflation reduction has shown in recent years, quick and efficient measures can only be based on widespread social and economic consensus. As the majority of the Hungarian deficit reduction is based on increased taxation, the main issue will remain if all the expected tax revenues can be collected. The adjustment measures may push an even larger part of the society towards the grey and black economy, the size of which is already substantial.

The incredibly low social acceptance of the government measures is mainly due to two factors. First, the center-right opposition suggests that there would be an alternative, less painful scenario for deficit reduction and social reforms without giving exact details and analysis about the alternative programmes. However, according to the logic of the Hungarian quasi-two party system, the opposition is not interested in taking part of the responsibility in the ongoing programmes, thus undermining any substantial changes or reforms that would require a qualified majority decision as well as ruining the possibility of any widespread social consensus. On the other hand, the ruling socialist – liberal democrat coalition is responsible not only for the major part of the broken equilibrium but also for the poor communication results. The majority of the Hungarian society does not understand the necessity of the programmes and even if they agree with the diagnosis of the major problems and some of the solution attempts, they do not see how these random, undeveloped measures will form a coherent and well-defined programme.

Short-term fiscal consolidation is definitely easier than reaching long-term sustainablity of government finances and the social welfare systems. The government shows high commitment towards the implementation of the programmes and seems ready to perform tighter fiscal discipline. A recently passed act allowing only a surplus of the primary balance from 2008, as well as the close supervision of the EU can safeguard this.

The feasibility of the structural reforms is a more complex issue. Economy as well as politics is made on double levels: besides a national one there exists a community level of decision-making. The community level can empower national governments to carry out difficult reforms, however, it may also serve as an excellent excuse for their failure to undertake unpopular policy decisions. Hopefully, the current reforms in Hungary will be rather fueled by Brussels` determination to welcome only economically sound new members in the Eurozone. Hungary has already paid a large price for having continuously postponed some vital reforms. If the present programme means no real, profound changes, just a new facelift on the old body of the social welfare system, that price will still increase.

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OVERALL ANALYSIS OF THE TAX EVASION PHENOMENON AND ITS DYNAMICS IN ROMANIA AFTER 1989

Stela Aurelia Toader*

Abstract

In this paper the tax dodger phenomenon is approached from the perspective of the tax evasion identified as a consequence of the fiscal inspection activity. Based on the data referring to the level and dynamics of the tax dodger phenomenon have been made appreciations regarding the fiscal discipline of the Romanian tax payer and to the attitude of the qualified organs in discovering and sanction of the fraudulent tax evasion, in the period 1995-2005.

In this sense have been analyzed a series of indicators like: the number of verifications, the number of tax evasion cases, the frequency of tax evasion, the total value of the identified tax evasion, the real volume of the identified tax evasion, the medium measure of tax evasion, the penalty rate and the potential and effective multiplier of tax evasion.

Also it has been realized an analysis on the capacity of the sums additionally drawn after the identification of tax evasion of financing the budget's deficit. Thus, in 2005, the additionally drawn sums have exceeded the consolidated general budget's deficit, but unfortunately, these have been received only in a proportion of 21, 4%, the receiving remaining difference, of 2,265,766 RON, representing 97,4% from the consolidated general budget's deficit.

Related to the fiscal regulations, various tendencies and motivations manifest at taxable level in order to elude the fiscal duties. The proportions the fiscal evasion has reached in our country make this phenomenon so real, as its presence has become ordinary in all income areas.

We are able to assert without any exaggeration that after 1989 a social norm of fiscal evasion has gradually arrived, and the Romanian taxpayers, irrespective of their financial position or social status, have been trying and many times succeeding to avoid the fiscal duties payment.

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The fiscal evasion ubiquity in our country has been sustained by a series of agents:

- A fiscal legislation characterized by inconsistency, incoherence, lack of precision and stability in time;
- The late issuance of an evasion combating law (Law no. 87/1994 entered into force at the end of the year 1994);
- The absence, until 2004, of a fiscal Code and fiscal procedure Code, indispensable to the fiscal legislation uniformed application having effect over the fiscal evasion limitation;
- The existence of a high level of taxation related to the real payment capacity of the Romanian taxpayer;
- The corruption present within the society;

As the fiscal evasion is punished by law only when committed by fraud, during the hereby work the fiscal evasion level in our country will be analyzed grounded on the information provided by the fiscal and financial control bodies regarding the recognized fiscal evasion[1]. It has though to be mentioned that not all the fraud recognized due to fiscal control is certain. In this respect, it must be taken into account that there is a long enough process of fiscal control results litigation or judgment at various courts of law. Until the date of definitive and irrevocable decision ruling, the additional amounts of money cannot be registered with the fiscal registries as certain debts.

1. Considerations on the fiscal discipline of the Romanian taxpayer

The fiscal discipline at national level but also the **attitude of the bodies competent** in revealing and punishing the fiscal evasion committed by fraud are displayed by the following data, which is related to the number of controls and their results during 1995-2005.

Table 1: Evolution of the fiscal evasion recognized in Romania during 1995-2005

No.	Indicator	1995	1996	1997	1998	1999	2000	2003	2004	2005
1	Examination number	668.543	760.467	741.455	623.878	469.503	494.209	446.822	273.020	286.903
2	Number of recognized fiscal evasion cases	273.482	235.573	285.514	257.766	197.018	199.139	195.425	120.077	115.158
3.	Fiscal	40,9	31	38,5	41,3	41,9	40,3	43,7	44	40,1

[1] The term of „evasion" used in the Ministry of Public Finances will be kept, but the right acceptance is the fiscal fraud (fiscal evasion committed by fraud)

	evasion frequency (%) (2/3*100)									
4.	Total value of the recognized fiscal evasion (thousand RON)	87.597	92.720	180.984	203.560	341.920	360.512	798.900	982.350	1.746.304
5.	Total value of the applied sanction (thousand RON)	…	95.505	368.062	743.170	1.126.685	1.147.679	1.804.700	1.984.522	1.137.326
6.	Total amounts additionally added (thousand RON) (4+5)	…	188.225	549.046	946.730	1.468.605	1.508.191	2.603.600	2.966.872	2.883.630

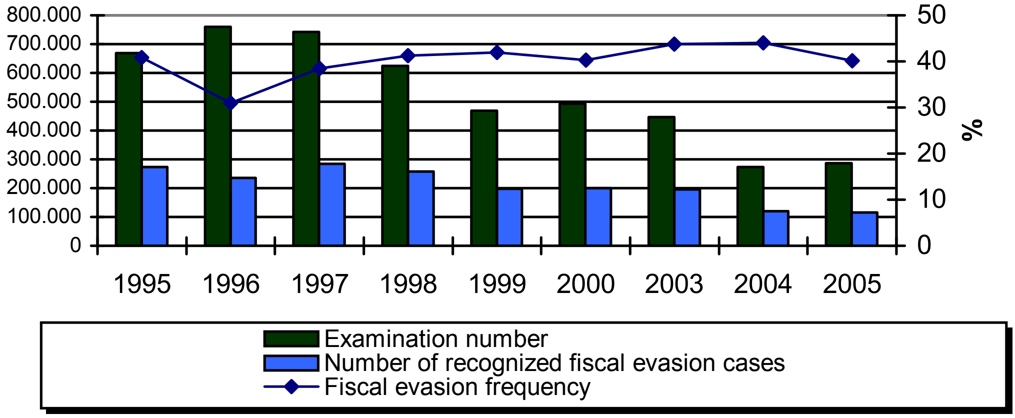
Source: Reports on the evasion phenomena level, The National Agency for Fiscal Administration, The Financial-Fiscal Control Department

The displayed data helps us to notice that although the number of the taxpayers tracked down for fiscal legislation evasion both decreased during 1995-2005 with nearly 57%, the frequency of fiscal evasion cases has remained comparatively stable, especially after 1998, around 40% of the performed examination. The comparatively stable fiscal evasion frequency, as fiscal discipline indicator, may be construed as the lack of improvement of the Romanian taxpayer fiscal conformity. On the contrary, taking into account the slight increase of the recognized fiscal evasion, during 1996-2004, we are able to assert that the number of people who illegally avoid the taxation has slightly increased, or, if in 1996, out of 100 performed controls 31 tax dodgers were revealed, in 2000, their number reached nearly 40, while in 2004, 44.

Of course the organization of fiscal control is also important as well as targeting of the taxpayers with high risk of fiscal evasion, so the slight increase of the fiscal evasion cases frequency may be also appreciated as an improvement of the fiscal evasion cases recognition activity.

Aggrandizing and taking into account a certain error degree, we can consider that less than a half of Romanian taxpayers avoid by fraud the fiscal obligation payment. The decrease of the number of performed controls and subsequently the probability for a dodger taxpayer to be revealed, except for the fact that determines a decrease of the fiscal control costs, it cannot have a favorable impact over the Romanian taxpayer fiscal conformity degree.

Figure 1: The frequency of the fiscal evasion cases within controls total 1995-2005



Regarding the nominal value of the recognized fiscal evasion, it has increased during the analyzed period from 87,597 thousand RON, in 1995, to 1,746,304 thousand RON, in 2005, meaning an augmentation of 1,893.5%. For a real image of the alteration regarding the amounts the revealed taxpayers have evaded from the public budget, their analysis is required grounded on the real value of the recognized fiscal evasion, expressed in constant prices.

Table 2: Nominal and real volume of the fiscal evasion recognized during 1995-2005

Year	The fiscal evasion recognized (thousands RON – current prices)	P.I.B. deflator coefficient chain grounded (%)	P.I.B. deflator coefficient with fixed ground (1995, %)	The real volume of the fiscal evasion recognized (thousands RON – constant prices)	The average extension of the revealed fiscal evasion (RON – current prices)	The average extension of the revealed fiscal evasion (RON – constant prices 1995)
995	87.597	100	100	87.597	320,3	320,3
996	92.720	145,3	145,2	63.856	393,6	271,0
997	180.840	247,3	359,32	50.368	633,4	176,4
998	203.560	155,2	557,66	36.502	789,7	141,6
999	341.920	147,8	824,22	41.484	1.735,5	210,6
000	360.512	144,3	1.189,34	30.312	1.810,3	152,2
001	…	137,4	1.634,15	…	…	…
002	…	123,4	2.016,54	…	…	…
003	798.900	119,4	2.407,74	33.180	4.088,0	169,8
004	982.350	115,8	2.788,16	35.232	8.181,0	293,4
005	1.746.304	112,0	3.122,73	55.922	15.164,4	485,6

Source: Reports on the evasion phenomena level, The National Agency for Fiscal Administration, The Financial-Fiscal Control Department, The National Statistics Institute, www.insse.ro and our calculations

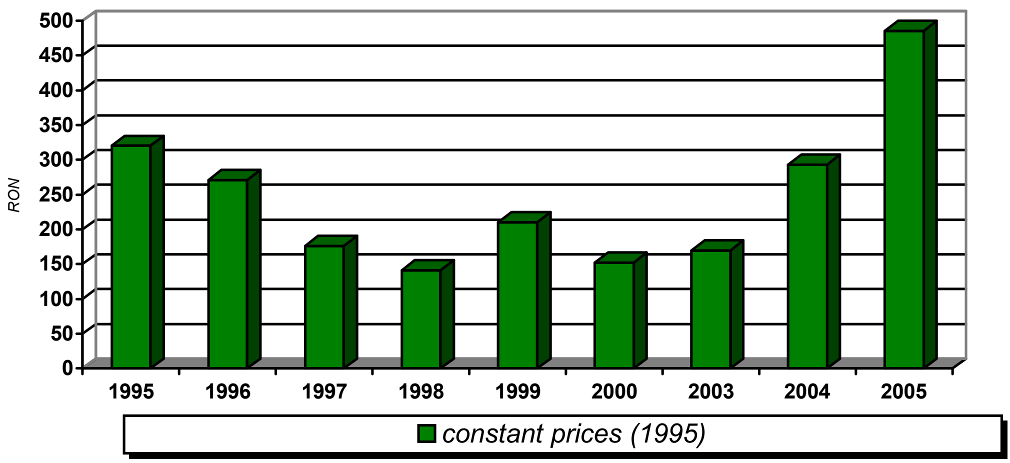
The abatement of the number of controls performed by the fiscal control bodies is having also impact over the real volume of the recognized fiscal evasion. If in 1995, the revealed taxpayers prejudiced the public budget with 87,597 thousand RON, in 2000, the evaded revealed amounts were 30,312 thousand RON, after which an augmentation period has followed, reaching 55.922 thousand RON, in 2005, in 1995 prices, somehow similar to 1997.

Per total, the 57% decrease of the controls performed by the fiscal control bodies meant a deflation of the amounts revealed as evaded with, nearly, 36%, having impact over the additional budget cashed amounts (out of income differences and applied sanctions).

Another coefficient which expresses the Romanian taxpayer fiscal discipline is the average extension of the amounts evaded by a revealed dodger taxpayer, determined by relation between the revealed fiscal evasion level and the revealed fiscal evasion case number.

From the displayed date results that in 2005, a taxpayer used to evade, in average, 485.6 RON (4.856.000 former lei), with 51.6% more than in 1995 (320,3 RON) and with 185.9% more than in 2003 (169,8 RON). As these numbers are expressed under constant prices (1995), the augmentation in real terms of the average amount evaded by a taxpayer can only mean a fiscal discipline degradation regarding the Romanian taxpayer.

Figure 2: The average extension of the fiscal evasion recognized with a dodger taxpayer



2. Considerations regarding the sanctions applied subsequent to the fiscal evasion recognition

Through recognizing the fiscal evasion cases, the additional income entailing to budget is quantified under the value of the applied sanctions.

In table no.3 the total value of the sanctions applied subsequent to the fiscal evasion cases recognition is displayed, both in absolute and relative values, in form of ***penalty*** rate.

$$Penalty - rate = \frac{Total - value - of - applied - sanctions}{Total - value - of - recognized - fiscal - evasion} * 100$$

Table 3: Sanctions applied due to the fiscal evasion cases recognition

	Total value of applied sanctions (Thousand RON – current prices)	Total value of applied sanctions (thousand RON – constant prices 1995)	Penalty rate (%)
1996	95.505	65.774,8	103,0
1997	368.062	102.432,9	203,3
1998	743.170	133.265,8	365,0
1999	1.126.685	136.697,1	329,5
2000	1.147.649	96.494,6	317,0
2003	1.804.700	74.954,1	225,9
2004	1.984.522	71.176,7	202,0
2005	1.137.360	36.421,9	65,1

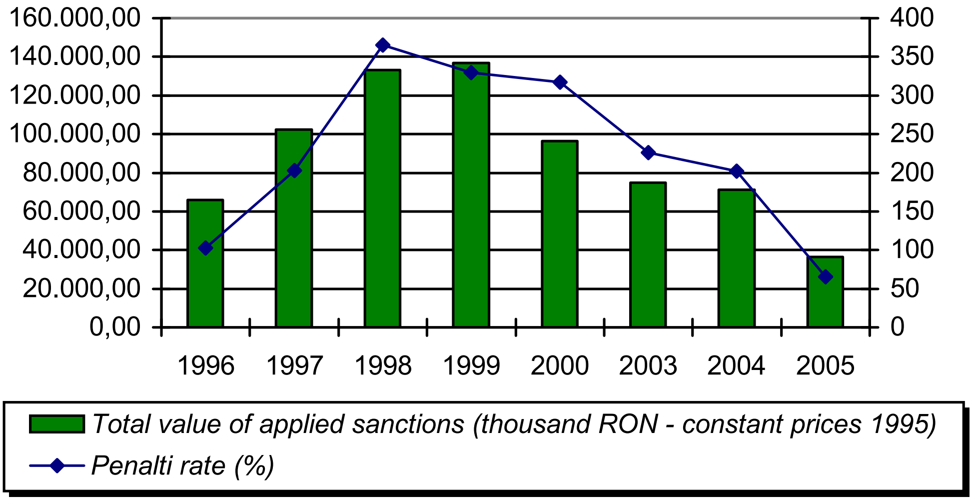
Source: Reports on the evasion phenomena level, The National Agency for Fiscal Administration, The Financial-Fiscal Control Department and own calculation

We notice that, subsequent to an augmentation period, recorded during 1996-1999, in real terms, the applied sanctions, expressed as absolute amount, begun to decrease, starting to represent, in 2005, a little more than half of the value of 1996 applied sanctions.

The penalty rate has recorded comparatively the same abatement tendency. Thus, while during 1998, the applied sanctions were only 3.6 times bigger than the evaded amounts, during 2004 the applied sanctions decreased to only 2 times the recognized evasion value, and only during 2005 the applied situated under the recognized evasion value.

During 2005, the penalty rate was 65.1%, meaning that for 100 evaded monetary units, the taxpayer only received 65.1 monetary units as penalty and all this while the recognized fiscal evasion value was during 2005, in real terms, bigger than the revealed one during 1997 (when the penalty rate was 203.3%) and the average value of the recognized fiscal evasion recognized with a taxpayer situates at the highest level recorded over the entire analyzed period.

Figure 3: Applied sanctions and the penalty rate during 1996-2005



It may be interesting to see in what extent the applied sanctions annual variation kept up with the recognized fiscal evasion annual variation.

From table number 4 it can be noticed that:

- during the first part of the analyzed period, i.e. years 1996-1998, the decrease of the recognized fiscal evasion value was accompanied by a pronounced increase of the applied sanctions. This may indicate an exaction character in case of evasion recognition, which is a hazardous situation in a corrupt environment, leading only to corruption augmentation;

- during the second part of the period, i.e. years 1998-2000, the control bodies had a balanced attitude in front of the fiscal evasion phenomenon, the alteration way of the recognized evasion value being followed by the same way of alteration of the applied sanctions value;

- during the third part of the analyzed period, i.e. years 2003-2005 the situation was quite opposite. Thus, at a recognized evasion real relative augmentation of 6.18% in 2004 compared to 2003, the fiscal bodies answered with applied sanctions having a real relative abatement of 5%.

The situation is even worse in 2005, when the 70% real relative augmentation of the recognized fiscal evasion, compared to 2004, was accompanied by a 50% real relative abatement of the applied sanctions.

Table 4: The annual variation of the recognized fiscal evasion and of the applied sanctions, during 1997-2005

	The annual variation of the recognized fiscal evasion		The annual variation of the applied sanctions	
	The real absolute alteration (thousand RON – current prices)	The real relative alteration (%)	The real absolute alteration (thousand RON –current prices)	The real relative alteration (%)
1997/1996	- 13.488	- 21,1	- 15.536,4	+ 55,7
1998/1997	- 13.866	- 27,5	+ 82.937,4	+ 164,7
1999/1998	+ 4.982	+ 13,6	+ 3.431,3	+ 2,6
2000/1999	- 11.172	- 26,9	- 40.202,5	- 29,4
2004/2003	+ 2.952	+ 6,2	- 3.774,4	- 5
2005/2004	+ 20.690	+ 70	- 34.754,8	- 48,8

Source: Own calculation grounded on the reports on the evasion phenomena level, The National Agency for Fiscal Administration, The Financial-Fiscal Control Department

3. Considerations regarding the fiscal evasion capacity to finance the budgetary deficit

The applied sanctions value offers information also regarding the budget carrier capacity for additional income through fiscal evasion revealing. Thus, the budget carrier capacity for additional income through fiscal evasion revealing can be quantified with the *fiscal evasion potential multiplier* help. This is defined as the number of monetary units additionally carried to the budget subsequent to a monetary unit of fiscal evasion.

Compared to the fiscal evasion potential multiplier, the taxpayers' fiscal discipline but also the capacity of the bodies competent in enforcing the debts resulted from the ascertained tax differences and the applied sanctions may be analyzed also in respect of the *fiscal evasion effective multiplier,* which represents the number of monetary units effectively collected to the public budget for a monetary unit effectively collected out of fiscal evasion.

Table 5: The potential multiplier / effective multiplier of fiscal evasion

Current number	Specification	1996	1997	1998	1999	2000	2003	2004	2005
1.	Recognized fiscal evasion (thousand RON)	92.720	180.984	203.560	341.920	360.512	798.900	982.350	1.746.304
2	Applied sanctions and penalties (thousand RON)	95.505	368.062	743.170	1.126.685	1.147.679	1.804.700	1.984.522	1.137.326
3. (1+2)	Amounts additionally carried to budget	188.225	549.046	946.730	1.468.605	1.508.191	2.603.600	2.966.872	2.883.630

	(thousand RON)								
4. (3/1)	*The potential multiplier of the evasion (coefficient.)*	*2,03*	*3,03*	*4,65*	*4,29*	*4,18*	*3,26*	*3,02*	*1,65*
5.	Collected fiscal evasion (thousand RON)	…	63.399	77.575	…	91.014	197.227	326.590	438.219
6.	Sanctions and penalties collected subsequent to the evasion (thousand RON)	…	65.590	133.637	…	129.644	198.893	188.490	179.645
7.	Amounts additionally carried to the budget (thousand RON)	…	128.989	211.212	…	220.658	396.120	515.080	617.864
8.	*The effective multiplier of the evasion (coefficient)*	…	*2,03*	*2,72*	…	*2,42*	*2*	*1,58*	*1,41*

Source: Reports on the evasion phenomena level, The National Agency for Fiscal Administration, The Financial-Fiscal Control Department and own calculation

Although decreasing, the high values of the fiscal evasion potential multiplier indicate a high potential to carry budgetary income through control, but unfortunately, there is a great difference between it and the effective multiplier, which reveals serious deficiencies regarding the fiscal bodies' capacity to enforce and collect effectively the amounts additionally established subsequent to fiscal evasion recognition.

The funds constituted related to the budgetary deficit financing, during the budget execution, as well as the effective capacity of the fiscal evasion to finance the budgetary deficit are displayed within table number 6.

Table 6: Balance of amounts additionally carried to the budget, subsequent to fiscal evasion recognition, in the consolidated general budget's deficit

-

thousand RON-

	1996	1997	1998	1999	2000	2003	2004	2005
Deficit of the consolidated general budget	429.030	887.650	1.329.290	1.007.820	3.204.510	4.395.100	2.907.500	2.326.300
Total amounts additionally carried	188.225	549.046	946.730	1.468.605	1.508.191	2.603.600	2.966.872	2.883.630
Balance of	43,8%	61,8%	71,2%	145,7%	47%	59,2%	102,0%	123,9%

additionally carried amounts in deficit								
Total of additional carried amounts collected to the budget	…	128.989	211.212	…	220.658	396.120	515.080	617.864
The balance of additionally carried amounts collected within total amounts additionally carried	…	23,5%	22,3%	…	14,6%	15,2%	17,4%	21,4%
Differences remained to be collected	…	420.057	735.518	…	1.287.533	2.207.480	2.451.792	2.265.766
The balance of the differences remained to be collected in deficit	…	47,3%	55,3%	…	40,2%	50,2%	84,3%	97,4%

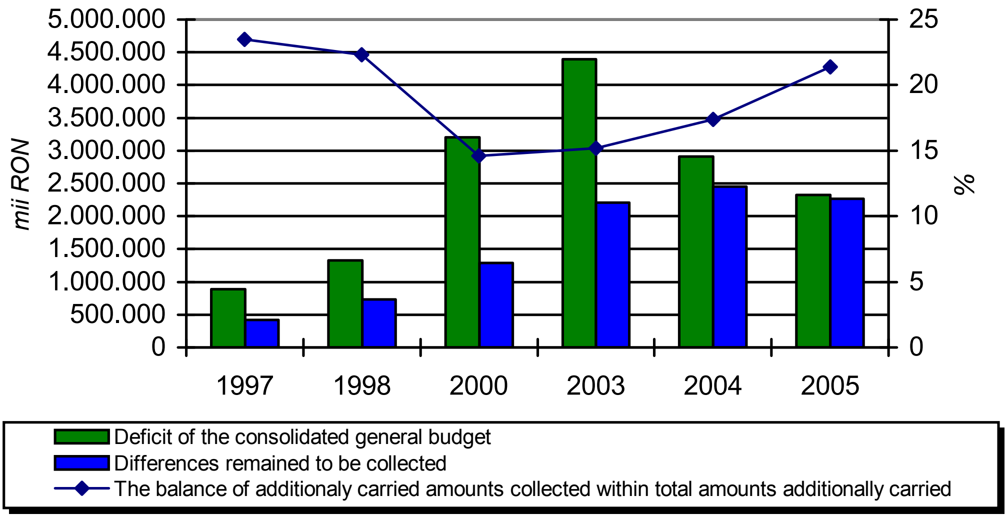
Source: Ministry of Public Finances, The General Department of Budget Policies Synthesis, reports on the evasion phenomena level, The National Agency for Fiscal Administration, The Financial-Fiscal Control Department and own calculation

It can be noticed, from the displayed data, that the fiscal evasion represents a great capacity to finance the budgetary deficit, reflected both under the balance of the additionally carried amounts subsequent to the fiscal evasion recognition within the deficit of the general consolidated budget, and the balance of the differences remained to be collected (uncollected during the respective budgetary exercise) within the deficit of the general consolidated budget.

Thus, if during 1997 the total of additionally carried amounts subsequent to the fiscal evasion recognition would have been collected to the budget, the deficit of the general consolidated budget would have been smaller with nearly half of the recorded one, and in 2005 would have represented only 2.6% of the recorded deficit of that year, respectively 60.534 thousand RON, i.e. 0.02% of P.I.B. Therefore we may consider that the fiscal bodies' attention to better collect the debts ascertained subsequent to the fiscal evasion recognition may constitute a modality for the considerable adjustment of the budgetary deficit. Unfortunately, over the analyzed period, the balance of the additionally carried amounts in the additional carried amounts total was reduced, without exceeding 25%.

We have to notice though the slight tendency to increase that balance during 2003-2005, from 15.2% to 21.4%.

Figure 4: Capacity of additionally carried amounts subsequent to the fiscal evasion recognition to finance the budgetary deficit



4. Conclusions

During the last 10 years, the fiscal discipline of the Romanian taxpayer has gradually degraded, assertion grounded on the constant conservation, on the background of controlled taxpayers number acute deflation, of the frequency of the recognized fiscal evasion, as well as the real terms augmentation of the average amount evaded by a taxpayer.

At the same time, the applied sanctions were not able to act efficiently towards the limitation of this exercise, the penalty rate having after 1998, parallel to an increasing fiscal evasion, an acute tendency towards abatement.

Although the level of the amounts carried subsequent to the fiscal evasion revealing indicate a high potential to finance the budgetary deficit, the fiscal bodies have not apparently had the capacity to effectively enforce and collect but a small part of them.

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THE DOHA ROUND, THE DOWNFALL OF THE WTO?

Sorina Costache*

Abstract

In 1995, when the WTO was institutionalized, its perspectives were great. Today, 151 countries are member states, amongst which international trade moguls like the USA, Japan and China while even Russia is in the midst of its accession negotiations. Looks like a success story.

Yet, to no avail, since the Doha Round seems doomed and further negotiations are endangered by the creation of two factions: developed and developing countries accusing each other of non-cooperation and, respectively, of exploitation.

The WTO faces its biggest challenge: surpass self interests for the general good and hail for victory or raise the white flag and accept defeat.

1. Introduction

"There are a number of ways of looking at the WTO. It's an organization for liberalizing trade. It's a forum for governments to negotiate trade agreements. It's a place for them to settle trade disputes. It operates a system of trade rules. But it's not Superman, just in case anyone thought it could solve - or cause - all the world's problems!"(WTO, 2007)

Regardless of the way in which one chooses to look at the World Trade Organization, better known under its short version as the WTO, this international body is, without a doubt, a remarkable piece of institutional machinery. Since its creation in 1995, when it took over from the General Agreement on Tariffs and Trade, the former GATT, the number of member states has reached 150, 28 additional countries now being in the midst of accession negotiations. More so, while GATT dealt with trade in goods, the WTO has a much larger sphere of interests, such as intellectual properties, investments and trade in services.

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Free trade never seemed so close by, and the tale of developed and developing countries alike, enjoying the fruits of their labor and sharing in the global development was optimistically told and retold.

Things were seemingly running smoothly, round after round of negotiations, and despite certain severe hiccups, such as the Cancún lack of consensus of 2003 and the international criticism that exploded into street fighting in Seattle, in 1999, the WTO kept moving forward.

Until now. In July of 2006, the WTO talks were suspended. The cause of the suspension of negotiations was the fact that the six major member countries, designated as the G6, namely the EU, Brazil, India, Australia, Japan and the United States, formerly known as the "Five Interested Parties" before Japan was included, failed to make sufficient progress among themselves concerning the modalities of negotiations on two key areas, agriculture and non-agricultural market access (NAMA). The immediate cause of the breakdown of the G6 talks was the refusal or inability of the US Representative to improve on its offer of trade-distorting support level which was actually $3 million higher than the 2005 level. (Khor, 2006) This offer was not acceptable to the other five members and in turn the whole Doha Round is now in peril.

It is quite unbelievable how the offer of a single country, even if that country is the US, can make the whole system stumble. 149 countries breaking their stride for the simple whims of one member. Indeed, is it so unbelievable, it must be untrue. The problem seems to lie somewhere else. Not one country is able to block negotiations where the will of 149 others stands strong and united. If that will is truly strong and united. But further research shows that there is a huge division between member states, notably the developed countries, embodied by the OECD, and the developing as well as the least developed countries. Self interests are colliding with each other, and negotiations are derailed. Best intentioned policies and frameworks are widely mediated when secrecy and unfairness characterize the WTO talks. It is no wonder, then, that negotiations were suspended. It is a miracle talks even got this far.

The aim of this paper is to try to unclear the reason for the current suspension of negotiations. The fact that the US did not or could not come with a better offer regarding its trade-distorting support level is just an excuse. Or, more likely, the last drop in a series of questionable measures and mechanisms that have been forced onto unprepared, unaware, economically and politically uncompetitive member states. Some time has passed since the US and the EU were the ones in charge, controlling each facet of the negotiations. In Cancún, a new group emerged, the G20, the most industrialized developing countries, and led by Brazil and India, they have started to make their voices heard. However, they are not the only group that has taken to protecting their own interests. Thus, the WTO has become an umbrella for different groups of interests pushing and making way for their personal good. Thus, even though the Doha Round has been termed the Development Round, development issues have been ironically accorded low priority during the negotiations, in favor of the agriculture and non-agriculture market access agenda. Developing countries will supposedly be the worst off if the Doha Round does not reach consensus, since the development agenda was elaborated in their interest. Nevertheless, the way things have been going, developing countries would have been deeply affected by the current turn of events. In order to save the Doha Round, and at the same time protect the developing countries as well as grant some of the developed countries demands, serious changes must be operated in the way that the talks have been conducted until now, and especially in the negotiations agenda.

The article is structured as follows. The next section will explore the WTO's historical background, while trying to take into account the GATT/WTO's evolution and to highlight its main successes. Section's 3 main objectives are to analyze the current negotiations impasse, the hidden motives as well as the secretive and the unfair practices that have become the norm during the WTO Doha Round. In Section 4 we will first try to underline the important position played by the US in the suspension of talks, as well as, and especially, its key role in saving the Doha Development Round from self destruction. Also, we will proceed to identify several measures for resolving the present dead-end situation of the Doha Round. Section 5 concludes the paper.

2. Historical background of the WTO

"The WTO's creation on 1 January 1995 marked the biggest reform of international trade since after the Second World War. It also brought to reality -- in an updated form - the failed attempt in 1948 to create an International Trade Organization." (WTO, 2007)

The WTO is in itself a relatively young institution, but the idea that gave it life, the idea of an international body that would regulate trade and trade-related issues is very old indeed.

Sixty years ago, on the 10^{th} of April 1947, representatives of nearly two dozen nations met in Geneva at the Palais des Nations to negotiate tariff reductions and finalize the text of the General Agreement on Tariffs and Trade. This meeting came to take place, starting with the Anglo-American discussions on Article VII of the Mutual Aid Agreement of 1942. The formidable personalities who shaped the negotiations - including Cordell Hull, John Maynard Keynes, James Meade, and William Clayton - as well as the negotiating positions and perspectives of the major nations and the numerous difficulties encountered in 1943-46 leading up to the 1947 GATT conference have had an enormous effect upon the ulterior shape and function of this trade agreement.

The GATT was to be a provisional agreement that was supposed to pave the way for an international body, the International Trade Organization (ITO). Ironically, the United Sates, the main promoter of this process of trade liberalization, had a change of heart and at the last moment refused to sign the founding treaty of the ITO. Without US support, the whole project collapsed. Except that it left behind one very odd reminder: the GATT, which continued to function, with very little alteration from its original form, till 1994, when the World Trade Organization (WTO) was institutionalized and encompassed the General Agreement on Tariffs and Trade.

There were eight successful Rounds of Multilateral Trade Negotiations (MTN) under the auspices of the General Agreement on Tariffs and Trade (GATT). The first was at Geneva in 1947 and the last, the Uruguay Round, was launched in Montevideo in 1986 and finished in 1995 in Marrakech, leading to the creation of the World Trade Organization (WTO). Few of these MTN Rounds except at the end, knew smooth negotiations.

The international market's growing complexity, the constant lobbying of the so-called stakeholders, the delicate additional negotiated issues such as agriculture and investments, only added to the already difficult task of reaching consensus. Thus, the Uruguay Round, after many vacillations and turns of events, was finally concluded eight years after it had begun, while the Tokyo Round needed just five years of intense negotiations. The other rounds, on the other hand, took much less time. If we look at the Doha Round from this perspective, then things are not very alarming at all. It has only been 6 years since its beginning in Doha, Qatar, in 2001, and suspension of talks is not new to the negotiators. During the eight years of the Uruguay Round, talks were several times abandoned until agreement was reached. Provided that member states return to the negotiating table, the Doha Round has nothing to fear. Provided that the member states can be persuaded to continue the negotiations.

The international trade scene has dramatically changed since the GATT years. The GATT/WTO negotiations have not always achieved all of their proposed agendas, but certain successful steps have been taken.

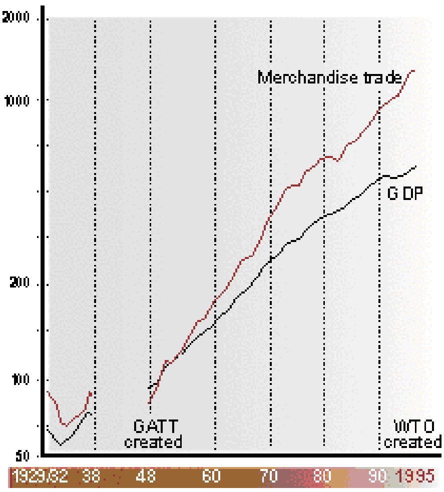
If the first four negotiations that took place in Geneva in 1947, in Annecy in 1949, in Torquay in 1951 and again in Geneva in 1956, as well as during the first round, the Dillon Round, the covered subject was simply tariffs reduction, the following talks begun to negotiate additional measures such as anti-dumping measures, non-tariff measures etc. The Kennedy Round, in the mid-sixties, added a section on development, while the Tokyo Round, during the seventies, attempted to tackle two new issues, non-tariff trade barriers and a first reform of the system. The Tokyo Round had mixed results, in some areas failing completely (farm trade), in others breaking new ground and establishing the so-called "codes". The last round, the eighth, the Uruguay Round of 1986-94, was the last and most extensive of all. It led to the WTO and a new set of agreements, taking into account the fact that during the last forty years since the creation of the GATT, trade had become far more complex. In major areas, such as agriculture, services and investments, the GATT was found wanting. GATT members were convinced of the fact that the reinforcement as well the extension of the multilateral system had to be attempted.

The Uruguay Round took seven and a half years to be completed, almost twice the original schedule. By the end of the negotiations, 123 countries were taking part in the talks. The Round covered almost all trade, "from toothbrushes to pleasure boats, from banking to telecommunications, from the genes of wild rice to AIDS treatments. It was quite simply the largest trade negotiation ever, and most probably the largest negotiation of any kind in history. At times it seemed doomed to fail. But in the end, the Uruguay Round brought about the biggest reform of the world's trading system since GATT was created at the end of the Second World War. " (WTO, 2007)

One of the major successes proclaimed as descending directly form the liberalized market is the fact that world trade and production have accelerated since the beginning of GATT and namely the creation of the WTO.

Figure 1:

Acceleration of world trade and production, as a consequence of trade liberalization



* (1950 = 100. Trade and GDP: log scale)

Source: WTO.

„The data show a definite statistical link between freer trade and economic growth. Economic theory points to strong reasons for the link. All countries, including the poorest, have assets - human, industrial, natural, financial - which they can employ to produce goods and services for their domestic markets or to compete overseas. Economics tells us that we can benefit when these goods and services are traded." (WTO, 2007)

If we look at the graph, we notice that both trade and GDP fell in the late 1920s, before bottoming out in 1932. After World War II, both have risen exponentially, most of the time with trade outpacing GDP. "GATT was provisional with a limited field of action, but its success over 47 years in promoting and securing the liberalization of much of world trade is incontestable. Continual reductions in tariffs alone helped spur very high rates of world trade growth during the 1950s and 1960s - around 8% a year on average. And the momentum of trade liberalization helped ensure that trade growth consistently out-paced production growth throughout the GATT era, a measure of countries' increasing ability to trade with each other and to reap the benefits of trade. The rush of new members during the Uruguay Round demonstrated that the multilateral trading system was recognized as an anchor for development and an instrument of economic and trade reform." (WTO, 2007)

3. WTO's impasse: the battle of interests

"... if the situation in the trade negotiations does not change soon, governments will be forced to confront the unpleasant reality of failure." (Pascal Lamy, 14th of April 2007)

Thus addressed Pascal Lamy the IMF-World Bank International Monetary and Financial Committee in Washington this April.

Since the suspension of talks in July last year, several efforts were made in order to resume negotiations, such as the Salzburg seminar in February this year, which reunited the top 50 stakeholders from several countries. According to Lamy, political drive can save the Doha Round, since the technical aspects of the negotiations can be managed. If only key actors such as the US and the EU, joined by developing countries' representatives, India and Brazil, could sit down and reach an agreement, Doha's problems would be solved. But, despite Lamy's confidence, can developed and developing countries put aside their self interests and think only of the general good? Are fairness and reciprocity going to be held in higher regard from now on?

3.1. Secrecy and unfairness

"I believe that trade opening and reducing trade barriers, has been, is and will remain, essential to promote growth and development, to improve standards of living and to tackle poverty reduction. The World Trade Organization remains the most efficient and most legitimate forum to open and regulate world trade. The most efficient because it works at the service of all the participants and because of its modern system to solve trade disputes. The most legitimate, because it is the fairest system of all, as all the decisions are taken by all the members, large or small, strong or weak." (Pascal Lamy, Director General of the WTO)

In this manner Pascal Lamy describes the important role of trade liberalization as well as the great mission of the WTO. In his words, the WTO is a grand institution with legitimity and a key role in protecting the interests of all members, developed and developing countries alike.

Despite his noble characterization, there have been countless claims that the WTO talks are lacking in fairness. According to Brown and Stern (2005), „how are nations to judge the fairness of the agreements that may be reached in the Doha Development Round? In modifying the global trading system as embodied in the GATT/WTO, will these agreements make it fairer? Given the self-intrested bias that nations – like individuals – suffer from, there can be no answer that satisfies all."

Their question is indeed a sensible one, but how does the negotiations reality reflect their observations? They continue by stating that „it is, of course, true that the most powerful exercice greater influence and that the weak are often obliged to compromise. Though, in principle, a country is free to withdraw from the GATT/WTO, its loss of rights like the Most Favored Nation treatment or access to the dispute settlement machinery is a deterrent. So it is quite possible for an individual country to emerge worse off from a particular round of negotiations and to find itself with no choice but to accept the worsened status. This said, it remains true that if the idea of fairness is persistenly violated, that will undermine the cooperation on which the system rests."

The Doha Development Round seems to have done just that, or rather, the problems of fair play and equality have burst during its mandate. The first such problems have arisen after the last GATT round of negotiations, the Uruguay Round, which had seen the adoption of a great number of delicate agreements. Developing countries have repeatedly asked that some time be spared on the „rebalancing" of these agreements before the start of a new round of talks in other areas. Their position, they argued, was a direct consequence of the fact that many of the agreements signed during the Uruguay Round, such as the Trade-Related Aspects of Intellectual Property Rights, the Trade-Related Investment Measures and the Agriculture Agreement, were not in their best interest.

At Doha, developing countries managed to include on the agenda two developing issues, namely the „implementation issues" and the „special and differential treatment". Both their requests, the further discussion of the difficult agreements and these two development issues, were accorded low priority during the negotiations. Worst of all, the development issues were treated with such lack of defference vis-à-vis the market access issues, that the deadline for the first were scheduled after that of the market access issues.

Indeed, agricultural talks have monopolized the so-called development negotiations. Development issues, even though they were publicly supported, turned out not to be a priority after all. In the end, talks were suspended because the G6 was not able to come to terms concerning the agricultural offers, the development agenda playing no part in their dissagreement.

Further on, the developed countries, apart from monopolizing the negotiations, have started using deceiving measures in their offers. Instead of cleanly cutting their trade-distorting support levels, they have simply transfered some of these in the so-called Green Box, which supposedly holds only those subsidies that do not have a distorting effect upon competition. According to Das (2006) „the really significant escape route is the Green Box which amounts to US$50 billion and Euro 22 billion in 2000 respectively in the United States and EU and the possibility of unlimited increase in future... Thus the Green Box, particularly its window of „decoupled income support" will continue to be the route to give farmers unlimited amounts of subsidies."

Such unfair practices are to be taken into account together with the fact that many a time, only a few member states get to be a part of the delicate negotiation talks, most of them being put into the situation in which they simply have to agree on what has already been decided in secret, by closed groups of interest.

3.2. Groups of interests worlds apart

"...many developing countries have spoken up on how only a few members seem to be dominating the negotiations. The agriculture negotiations were initially conducted mainly and exclusively by the so-called "Five Interested Parties" (US, EU, Brazil, India and Australia); and then Japan was included to form the G6. The other WTO members were expected to wait for the G6 to reach agreement among themselves, and their role was seen to be confined to endorsing any deal reached by the six. Often the majority of the members were kept waiting

for the six to make a decision, without even knowing what was being discussed by them, what the different positions were, or even where they were meeting." (Khor, 2006:3)

After all that we have presented about the WTO and the way negotiations are conducted, we can very clearly see that a certain number of interest groups are making the rules or rather, breaking them, as they go along.

At first glance, it will be easy to spot these factions: developed countries at one end, developing countries at the other. Unfortunately, things are a little bit more complicated. Groups within groups are defending their own interests, and if talks have been stalled, it is because there seems to be no middle ground for the many factions fighting for their slice of the pie. As Bhagwati (2005) commented, "the most difficult issue is agriculture, of course, where we have had the US and EU playing ping pong with offers and counter offers, with Commissioner Peter Mandelson playing for maneuver between France and its allies, who want to make no serious accommodation, and principally the Nordic countries and Britain who do."

But since Cancún, a new group emerged, the G20, comprising of a number of developing countries that include India and Brazil as their foremost representatives. These countries have experienced economic growth during the last years, they know what they want and they have learned how to get it. The WTO holds no threat or secrets for them. Thus, they have become a powerful voice in the negotiations, and without their support, few agreements can be reached.

Those countries that have the most to lose from this transformation of the negotiations, however, are those countries that are economically unpriviledged, have an inadequate political and diplomatic will and, worst of all, are unable to grasp the full implication of the extremely technical language, full of formulae and coefficients, used during the talks. Most of them will understand the real meaning hidded behind the numbers long after the agreements have been signed. And it is not their fault. Negotiators do their best to surround their proposals in numbers so that their interests can be protected. And who can blame them? They have done so until now, and it has worked. Mostly for the developed countries, it is true, but things are about to change.

Since more and more interest groups have been formed, such as the G20, the G6, the ACP Group or the G33, not to forget the old EU and the US, negotiations have become a battleground of interests. Each faction coming with its own proposal, only to be discarded due to the lack of agreement from the other groups. Until countries believe once again that by striving for the general good, their individual interests will be taken care off, the Doha Round's situation is bound to remain bleak.

4. Who will save the Doha Development Round?

4.1. The US, a key role in the negotiations

"A breakthrough in the negotiations in the next few weeks would send a much needed message of confidence, that WTO members remain committed to open markets and multilateral rules and that the foundations of the global economy are reinforced. This is perfectly doable. The challenge is less technical, than political. It is about leadership, about compromise, about countries recognizing their common interest in success and the collective costs of failure. I am confident that the United States will put all its energy and commitment into concluding the Doha Round. US leadership is always required to sustain the WTO but the exercise of this leadership by the Administration and Congress in the weeks and months ahead will be key to the fate of the Round. At this critical juncture in the negotiations, the WTO urgently needs their full support." (Pascal Lamy, 23rd of April 2007)

After the suspension of the WTO negotiations last year, the Director General of the institution, Pascal Lamy, has delivered a series of moving speeches in which he first attempted to raise the spirits of the member states into going back to the negotiating table and reaching an agreement. But coaxing and yearning has gotten him no further so now, after trying to address the negotiator's worst fears of failure, Pascal Lamy has decided to turn to the one member that can make a difference.

And a difference it made indeed, when in July of 2006 the talks were disrupted as a direct effect of the refusal or possibly the inability of the United States to come with a better offer in the agriculture dispute.

The US did not only come with an unacceptable offer regarding its trade-distorting support level, it brought fourth an offer that had higher levels than the previous years. And all this when they were supposed to cut their initial levels. Now the US offer has triggered a blockage of talks, and corroborated with the fact that the US fast-track authority will end by the 30th of July this year, unless something is done, Doha's chances for reaching consensus are very small indeed.

Thus, Lamy appealed to the United States from a double perspective: not only are they principally responsible for the dead-end reached by the member states at the negotiation table, but they are also the centre pillar in these discussions. Indeed, according to Lamy, US leadership is "key" to the breakthrough of the negotiations.

Thus, US leadership might be the answer in saving the Doha Round. Or maybe, the cooperation between major member states such as the US, the EU, India and Brazil could prove to be a miraculous solution to our problems. And then again, maybe not. Maybe the answer lies elsewhere.

4.2. Change, a possible solution?

"With the election of Pascal Lamy as Director-General of the WTO, a new era has begun. Lamy is notorious for his remarks, in the context of the Cancún failure, that the WTO operated as a "medieval" organization. The implication is that unless some institutional issues are addressed in the present, it may not be possible to negotiate successfully the Doha Round." (Howse, 2005:2)

During the seminar entitled "Realizing the Doha Development Agenda as if the Future Mattered," a seminar hosted by the German Marshall Fund of the United States, the William & Flora Hewlett Foundation, and the Salzburg Seminar, in Salzburg, Austria, in February of 2007, Susan Sechler and Joe Guinan made a very interesting point. According to them, the only chance the Doha Round has is if the Development Agenda is given top priority.

In their opinion, "while it is frequently bemoaned that designating the Doha Round as a "development round" has made negotiations more difficult, the designation may offer the only solution to the larger questions of legitimacy and credibility facing the WTO and the global trade regime. This is the main reason why "development" should not be seen as an add-on grafted onto the trade talks, but as part of the WTO's core mission to regulate trade, up there with – but not eclipsing – the technical focus on mechanisms of freer trade. At this point governments face the stark choice of negotiating a genuine development round or accepting failure."

A reform of the WTO and its negotiation mechanisms could also be an interesting solution. In Lamy's own words, after the Cancún collapse, the WTO is a "medieval" institution that could very well benefit from change.

Also, a change of perspective for the developing countries may be a solution. In Bhagwati's view (2005): "there is need to have the poor countries overcome their fear of trade liberalization by providing the institutional support for the potential downside that may arise. Two issues need to be addressed, in particular. If poor countries which are dependent on tariff revenues as a large fraction of their budget for social spending were to lose revenues if they cut their tariffs - Art Laffer and Milton Friedman would remind us that the revenues may actually rise, and there is empirical evidence that in some cases it did - , then international agencies such as the World Bank should stand ready to provide offsetting aid until as long as it takes to fix the tax system to raise revenues in other, more appropriate ways. Then again, the developing countries need adjustment assistance to cope economically and politically with the effect of import competition in specific industries. Western nations have such Adjustment Assistance programs, the US since 1962 when one was started to provide support for the Kennedy Round. Again, the World Bank is an ideal source for such support, both to design and to finance such programs in the developing countries that liberalize their economies. In the absence of such safety nets, these countries cannot be expected to walk out on the high wire of globalization. Fortunately, the Bank has finally listened to such appeals by trade economists; so progress can be made quickly."

5. Conclusion

"Of course, all MTN Rounds have succeeded in the end. The roller coaster analogy therefore does not work fully: the roller coaster comes back to where the ride began whereas the Rounds go on to success! But success does not always breed success: there is always the first time for failure.Yes, we will lose possibly substantial gains from trade if the Doha Round fails; but we will survive."(Bhagwati, 2005:2, 9)

The Doha Round has been subject to a lot of controversy, from the very moment of its creation, in 2001, and at times it seemed that it will never make it. This is just such a time.

The initial attempt to launch the WTO's first round of multilateral trade negotiations in Seattle in November 1999 collapsed, and the round was finally launched in Doha, Qatar, two years later.

Since then, Doha experienced several dead-ends, the most famous being in Cancún, Mexico, between the 10th and the 14th of September 2003, were there was a lot of dissent that led to the collapse of the negotiations, due to the lack of consensus, especially on agricultural liberalization. The "Singapore issues" were one of the few successes that Cancún can boast, as well as an agreement meant for the relaxation of the TRIPS.

The Cancún conference ended without consensus. Ten months later, the deadlock was broken in Geneva when the General Council agreed on the "July package" in the early hours of 1st of August 2004, which kicked off negotiations in trade facilitation but not the three other Singapore issues. The delay meant the 1st of January 2005 deadline for finishing the talks could not be met.

Unofficially, members aimed to complete the next phase of the negotiations at the Hong Kong Ministerial Conference, between the 13th and the 18th of December 2005, including full "modalities" in agriculture and market access for non-agricultural products, and to finish the talks by the end of the following year.

But in July of 2006, negotiations were actually suspended, and now, almost a year later, things seem not to have changed. WTO's Director General, Pascal Lamy has taken great pains in trying to bring back the member states at the negotiations table, but the interested parties are hard to convince, especially when each group is defending its own interests. In the end, Lamy has called for US leadership in order to solve the problem, and if this was a wise decision, it remains to be seen.

In our opinion, Lamy's characterization of the WTO as a „medieval" institution is quite accurate and until major reforms are not seriously made, things will doubtly improve. And if things are not to improve and the Doha Round is to be a failure, then what?

As Bhagwati (2005) so beautifully put it: „Then again, will the failure of Doha mean that massive gains from trade will be lost to one and all? That depends, of course, on what Doha can reasonably be expected to achieve. As with the Uruguay Round, when different computable models of trade were used to indicate great gains, there is a danger that the estimates of enormous gains from trade are currently being bandied about from substantial liberalization under the Doha Round. There will certainly be loss of some gains from trade; and any gain is welcome. But no one benefits from exaggeration and ballooning up of numbers in huge models that few understand and which obscure a slew of assumptions about matters such as the responses of farmers in Botswana and Uganda to estimated price change in response to removal of a price support in the EU that must be made in the teeth of little empirical knowledge. The economist John Whalley, who is arguably the best practitioner of such large models, had this to say about the models that had been produced to examine the effects of the prospective Uruguay Round tariff cuts on the developing countries: "…there are substantial, and at times hard to explain inconsistencies across model results. One model shows most of the gains come from agricultural liberalization, another from textiles, and yet another from tariff cuts. One model shows developing countries losing from the elimination of the MFA, another shows them as large gainers. … These differences occur even where similar data sets and benchmark years are used." A little restraint in citing the estimates of the massive gains from trade liberalization under Doha is in order. Yes, we will lose possibly substantial gains from trade if it fails; but we will survive."

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