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The ROMANIAN ECONOMIC AND BUSINESS REVIEW (REBE) is a refereed journal published four times annually by the Romanian-American University. The editors invite submissions of articles that deal with important issues in economy and business. Papers that focus on specific phenomena and events affecting Romanian economy are particularly encouraged. Because REBE seeks a broad audience, papers should be comprehensible beyond narrow disciplinary bounds.

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CONTENTS

MARIUS-DAN DALOTĂ	<i>SUCCESSFUL IMPLEMENTATION OF KNOWLEDGE MANAGEMENT IN SMALL AND MEDIUM ENTERPRISES</i>	7
THEODORE METAXAS	<i>THE ENTREPRENEURIAL CAPACITY OF LOCAL AUTHORITIES IN SOUTH- EASTERN EUROPE - AN ENTERPRISE PERSPECTIVE</i>	18
IULIU MARIN IVĂNESCU	<i>LEADERSHIP AND CRISIS</i>	37
KOZETA SEVRANI, KLODIANA GORICA, DORIANA MATRAKU (DERVISHI)	<i>INVESTING IN IT: SOME CHALLENGES FOR GLOBALIZATION PROCESS IN ALBANIA</i>	43
GHEORGHE LEPADATU	<i>THE IMPORTANCE OF THE COST INFORMATION IN MAKING DECISIONS</i>	52
ALINA FLORENTINA AVRIGEANU, FLAVIA GABRIELA ANGHEL	<i>ROMANIAN CLOTHING INDUSTRY: EXTERNAL MARKET VS. INTERNAL MARKET</i>	67
CRISTINA BÂLDAN	<i>ANALYSIS OF STATISTICAL DATA CHARACTERISING THE ECONOMIC-SOCIAL INEQUALITIES (DIAGNOSIS) IN THE REGION SOUTH – MUNTENIA – INFRASTRUCTURE AND HOUSING CRITERIA</i>	77
ANCA CRUCERU	<i>PROJECT MANAGEMENT ADJUSTMENT TO THE NEW WORLD TRENDS</i>	86
DANCIU ANIELA RALUCA, GRUIESCU MIHAELA	<i>THE EVOLUTION OF FDI IN ROMANIA DURING THE PERIOD 1990-2009</i>	97

FLORICA ȘTEFĂNESCU, DRAGOȘ DĂRĂBĂNEANU	<i>THE HUMAN RESOURCES MANAGEMENT IN THE CONTEXT OF THE ECONOMIC CRISIS</i>	104
CORINA IOANĂȘ, ȘTEFAN RĂILEANU, ALINA MIHAELA IRIMESCU, TIBERIU ALEXANDRU BITCA	<i>MANAGERIAL STRATEGIES CONCERNING THE WAGE POLITICS IN THE MEDICAL-SANITARY INSTITUTIONS</i>	118
ION RADU ZILIȘTEANU	<i>NATIONAL HOUSING POLICIES IN ROMANIA BETWEEN 1990 AND 2010</i>	126
MARINEL NEDELUT, GRIGORIE NICOLAE LACRITA, DRAGOȘ MIHAI UNGUREANU	<i>TAXATION OF LABOR INCOME IN DIFFERENT COUNTRIES THAT ARE NOT MEMBERS OF THE EUROPEAN UNION</i>	133
DANIELA ZIRRA	<i>INVESTMENTS IN THE CONTEXT OF THE ACTUAL ECONOMIC CRISES</i>	145
MONA MARIA IVANESCU, IULIU MARIN IVANESCU	<i>FUTURE PERSPECTIVE ON THE EURO AS A GLOBAL CURRENCY</i>	159
ANDRI KOXHAJ	<i>RETHINKING INTERPRETATIVE PATTERNS OF LEADERS: ALBANIAN LEADERSHIP BETWEEN MYTH AND REALITY</i>	168
DIANA SOCA	<i>RELATIONSHIP MARKETING – THE KEY OF THE SUCCESS IN BUSINESS</i>	177
GEORGIANA SURDU	<i>THE INTERNATIONALIZATION PROCESS AND THE ASSET-LIGHT APPROACH</i>	184
BOOK REVIEW		
WALTER BLOCK	<i>DESTINED FOR FAILURE: AMERICAN PROSPERITY IN THE AGE OF BAILOUTS by Sanchez, Nicolas, Christopher Kopp and Francis Sanzari</i>	189

SUCCESSFUL IMPLEMENTATION OF KNOWLEDGE MANAGEMENT IN SMALL AND MEDIUM ENTERPRISES

Marius-Dan Dalotă*

Abstract

Knowledge has become one of the critical driving forces for business success. Organizations are becoming more knowledge intensive and the needs for leveraging the value of knowledge are increasing. Organizations need to be cognizant and aware of the factors that will influence the success of a knowledge management (KM) initiative. The effective implementation of KM in small and medium enterprises (SMEs) is governed and facilitated by certain factors. Organizations can certainly benefit from a more thorough understanding of the factors that are critical to the success of KM. The adoption of factors which are not suitable can impede the achievement of the desired performance.

Keywords: Innovation management, Knowledge management, SME's growth, Performance management

JEL Classification: L20, L26, M10

1. Introduction

The development of a knowledge-driven economy has become a key priority for both local business development agencies and central government as the way forward to sustain economic growth and enhance skills levels across all sectors. Within what is known as the knowledge economy, at the level of SMEs, developing strategies to differentiate the organisation in the marketplace, creating knowledge in the organisation and utilising human assets are essential ingredients for success. For the SMEs within a specific cluster to be effective in their broad business development, investment in good practice human resource management activities and the identification and development of talent are key.

In order to respond positively to the rapidly changing environment and to perform effectively in spite of uncertainty, firms need to devote much of their time and effort in listening carefully to their customers, while at the same time participating in the development of their organizations so that they are able to effectively respond to the changing business environment.

Traditional forms of management for successful SMEs of the future will not be sufficient to meet these changing demands and a wider participation in the development of the organization and management of the business process will be vital ingredients for future organizational effectiveness. While the notion of the learning organization is not yet clearly defined and many authors on the subject have

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difficulty in reaching agreement as to the exact nature of, and the key ingredients of, the learning organization, many are agreed on the benefits.

The foundation of organisational competitiveness in the contemporary economy has shifted from physical and tangible resources to knowledge. The key focus of information systems has also changed from the management of information to that of knowledge.

Many organisations are increasingly viewed as knowledge-based enterprises in which formal knowledge management (KM) is essential. Nowadays, KM is rapidly becoming an integral business activity for organisations as they realise that competitiveness pivots around the effective management of knowledge.

2. Action learning SMEs

Action learning is a means of development, intellectual, emotional or physical that requires its subject, through responsible involvement in some real, complex and stressful problem to achieve intended change, sufficient to improve his intended behaviour henceforth in the problem field [1]. There are several questions which have arisen by SME owner managers from the literature, and which would need to be addressed in order to convince them that power sharing in the organization through widening questioning and reflection would be beneficial to the business:

a. If the learning organization model is so effective in terms of business performance, why isn't it more widely used?

Entrepreneurs according to the literature are by nature individualistic, desire almost total control on the direction and policies of the organization and find delegation difficult. This constraint can be further exacerbated when direct control of the company is in the hands of a family oligopoly. Another barrier (as shown in literature) emerges from negative feelings of SME owners and managers directors towards the higher education sector in general and academic research in particular.

b. Why entrepreneurs find it difficult to share power?

As some of the high profile entrepreneurial icons who were casualties of the late 1980s and early 1990s have demonstrated the nature and structure of organizations do change through time. Concomitant perhaps with those changes to the structure come a requirement for a shift in management emphasis from entrepreneurship to professional management.

c. When we are struggling for survival, we have not got the time to be engaging in esoteric discussion and learning. We need immediate results?

The company then has the opportunity for more empowered and enabled people to navigate effectively through change and uncertainty. Indeed, it is a key role of management to manage change effectively, in order to generate a learning culture within the organization which produces the climate not only to survive but to flourish.

d. How can we implement a learning model in a practical context when the concept of the learning organization is so difficult to tie down?

The learning company is not a standard formula to follow, or a proven winning formula to be benchmarked and imitated. It is a proposal, an invention and a broad

concept that is the best suggestion that can be made about how work and organizations proceed in this period of history. It is for us all to experiment with responsibility and imaginatively through a process that will itself be one of learning and discovery [2].

e. Isn't extending effective marketing effort in the organization going to produce improved profits, not extending learning?

One of the key strengths of the SME sector is their closeness to the customer. The knowledge which the SME marketer has of his or her customer base and their businesses enables change in terms of the individual customer demand and signals from the market to be perceived and managed in a speedy and effective manner. The critical challenge for any business is to create the combination of culture and climate that maximizes organizational learning on how to create superior customer value in dynamic and turbulent markets, because the ability to learn faster than competitors may be the only source of competitive advantage.

The learning culture and climate created by action learning produces the trust, openness, flexibility and eventually effectiveness which lead to the competitive of advantage.

3. SMEs factors in accomplishing KM

In the literature are indicated numerous factors that had been identified as important for accomplishing KM. Although different researchers have used different terminologies to indicate these factors, they can be represented by generic themes. Based on the literature, the basis for KM adoption in the SME sector are [4]:

- *leadership and support;*
- *processes and activities;*
- *motivational aids;*
- *resources;*
- *culture;*
- *information technology;*
- *strategy and purpose;*
- *measurement; organisational infrastructure;*
- *training and education;*
- *human resource management.*

The top three factors according to the SMEs are recognized by literature to be “senior management support and leadership”, “a knowledge-friendly culture” and “a clear strategy for managing knowledge”, while the bottom three were “development of a technological infrastructure”, “incentives to encourage KM practices” and “measuring the effectiveness of KM”. With regard to the “contributors”, “senior management support and leadership”, “a clear strategy for managing knowledge”, and “a knowledge-friendly culture” were ranked the highest, while “roles and responsibilities for KM”, “development of a technological infrastructure” and “measuring the effectiveness of KM” were the least critical.

In order of importance (ranked from the highest to the lowest) for implementing KM in the SME sector are [6]:

- I. *management leadership and support;*
- II. *culture;*
- III. *strategy and purpose;*
- IV. *resources;*
- V. *processes and activities;*
- VI. *training and education;*
- VII. *human resource management;*
- VIII. *information technology;*
- IX. *motivational aids;*
- X. *organisational infrastructure;*
- XI. *measurement.*

The specialists argue that there are differences in the perceived importance of factors for adopting KM, between large and small businesses. Successful KM in SMEs requires proactive entrepreneurial support and leadership from top management. Besides its importance, the fact that this factor was ranked the highest means that it should be addressed first, before dealing with the other critical success factors. Top management or leaders should devote themselves to promoting a corporate mindset that emphasises co-operation and knowledge sharing across the organisation. They should also contribute to the creation of an environment in which knowledge creation and cross-boundary learning can flourish. More essentially is for them to provide continual support and commitment to initiate and sustain the KM effort.

The second most important factor, culture, indicates that a knowledge-friendly cultural foundation is certainly more important than the deployment of information technology in KM. It has been asserted that the success of KM is 90 per cent dependent on building a supportive culture [4]. Important facets of a knowledge-oriented culture include such attributes as trust, collaboration and openness.

Another important criterion for effective KM is to have a clear strategy and purpose. A rational strategy helps to clarify the business case for pursuing KM, and steer the company towards becoming knowledge-based. In addition, it provides the essential focus, as well as values for everyone in the organisation. SMEs differ from large companies, because they suffer from resource scarcity. Consideration of resources' availability as well as their proper allocation and management are therefore of prime importance for SMEs in adopting KM.

It is also crucial not to overlook those factors which were ranked to be less important such as information technology, motivational aids, organisational infrastructure and measurement. It is indisputable that information technologies such as document management systems, information retrieval engines, relational and object databases, groupware and workflow systems, push technologies and agents, and data mining tools can facilitate KM. However, technology should not be seen as an absolute answer to KM, since it is only a tool.

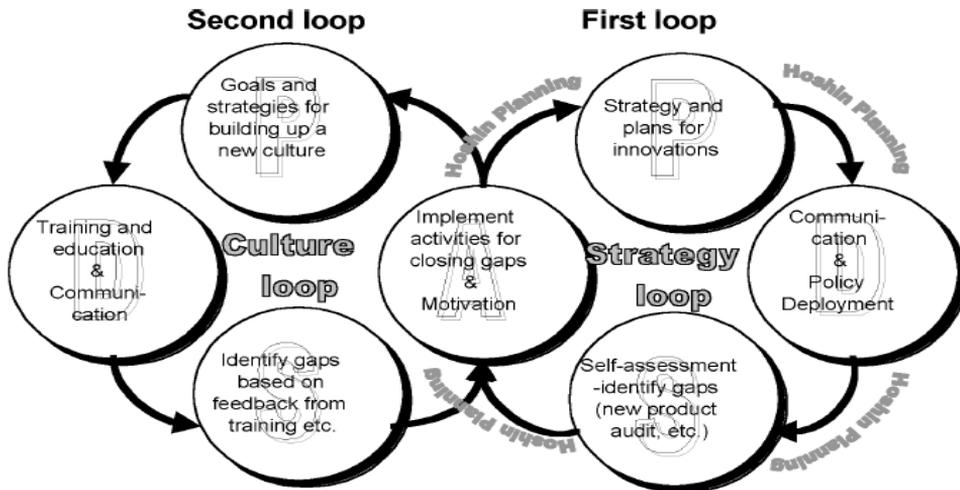


Figure 1 – ‘Plan-Do-Study-Act’ loop (PDSA) specific to creative and learning organisations

source: Anne Martensen and Jens J. Dahlgard

4. Creative organizations, knowledge management and innovation

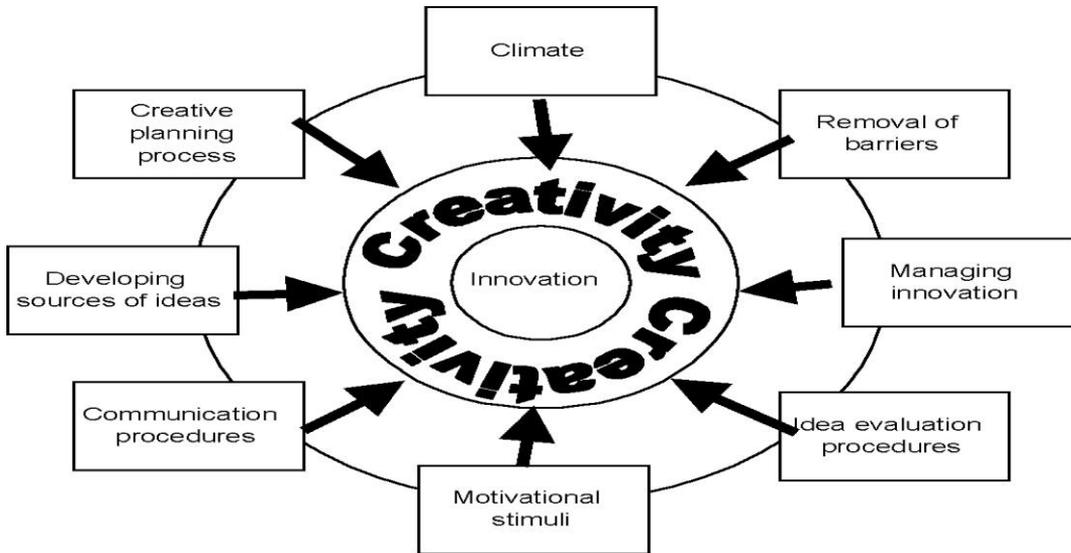
The creative and learning organisations have developed the extended PDSA loop (acronym for Plan-Do-Study-Act loop) which is shown in Figure 1. The first loop is for achieving excellence in strategy and planning in innovation management, and the second loop is to improve the whole setting in which innovation takes place, namely the company culture.

If the company does not have the needed supporting culture to carry out the activities connected to strategies and plans, they will seldom be successfully implemented and the second loop must be activated. In the second loop employees are encouraged to have a positive mindset, so that they can be creative and bring up new ideas, and they should have the intention to continuously learn and improve their own skills and abilities. These aspects are covered by the second loop.

Creative organisations come up with new ideas and concepts and use these in a flexible manner in managing innovations, so the organisation continually develops and introduces new products and thereby stays in business.

The concept of creative organisations is based on the people in the organisation. Creative processes build on potential creative resources in the company held by its people. So it is important to focus on the people in the organisation (Figure 2).

People, trained to be creative and to use their imagination, will most often be open to changes and new inputs, be flexible, open-minded and ready to learn new topics, and thereby increase their mental capacity.



Source: Majaro (1992, p. 23)

Figure 2 - Majaro's model for creative organizations

If the concept of creative organisations is supplemented with the concept of the learning organisation, this will improve the competitive advantages considerably, because when both concepts are applied at once and in harmony, they will result in a positive synergy effect, which is larger than the contribution from each concept separately. Besides, learning helps to increase the capacity of a persons' creativity. Creativity, on the other hand, is a prerequisite for implementing the learning organisation, and is the underlying driver behind all improvements and innovation.

The concept of learning organisations builds on the TQM (Total Quality Management) concept about everybody's participation. Only if everyone in the organisation is learning will it be possible to achieve a company culture, characterised by learning and dynamic change. So the learning organisation is a company culture supporting the concepts of continuous improvements and everybody's participation.

The learning organisation builds on communication and feedback. This has a positive effect on employees. The learning organisation has the positive effect on employees, that they very often find it obvious what to do, how to do it and why.

Continuous improvements can only be achieved, if the employees understand how to prioritise their efforts. The goals and strategies, developed by top management, will only have an optimal effect, if each employee in his daily work shares and supports these goals and follows the terms of reference for succeeding with these goals. This is done through Hoshin Planning and Process Management (see Figure 1).

Continuous transfer of knowledge and information across functional and divisional boundaries is essential for successful innovation.

Managers have to be visionary and forward looking, to manage the company in a changing world, and this is especially relevant when the focus is on innovation. Knowledge and learning will be the basis for the ability to be forward looking.

Definitions of the term "knowledge" vary considerably, and often such definitions are not clearly explicated in either the research literature or in the operational context. Information can be characterised as "data endowed with relevance and purpose", while knowledge can be defined as "information combined with experience, context, interpretation, and reflection". All organisations deal in knowledge. Organisations can choose between competing systems and processes to acquire, manage, and disseminate knowledge. These systems and processes are explicit as well as implicit and can be influenced by personal and organisational values and ideologies. In terms of an organisation's internal systems, organisations actually filter acquired knowledge.

Research has indicated that organisations do not adopt a uniform approach to knowledge management. They outline two distinct strategies utilised when selecting a KM (Knowledge Management) approach: a codification strategy, centred around IT (Information Technology) resources, and a personalization strategy, centred around human resources (HR). There are rare cases when organisations attempt to adopt elements of both approaches.

Contemporary knowledge management approaches appear to represent extensions of either organisational learning or business information systems, and these KM approaches tend to be driven predominantly within an IT or humanist framework or paradigm. This divide between KM approaches has ramifications for both organisational learning and innovation processes. One body of literature on KM has its origins in approaches to IT, information systems and related issues. This canon supports an IT paradigm. In contrast, a competing body of literature supports a humanist paradigm in which the social relations of organisational knowledge are paramount. While this latter paradigm recognises the technical side of KM, it also highlights the significant influence of people in the process of managing and interpreting knowledge. Compared to the "hard" IT paradigm, the "soft" humanist paradigm accords more attention to organisational slogans, metaphors, and symbols. The analysis of KM in a humanist paradigm is open to more interpretive explanations.

There are numerous definitions of innovation in the literature, however, most definitions share common themes relating to knowledge, which may be turned into new products, processes and services to improve competitive advantage and meet customers' changing needs. The scientists define innovation as "something that is new or improved done by an enterprise to create significantly added value either directly for the enterprise or directly for its customer." Other specialists refer to innovation as "new products or processes that increase value, including anything from patents and newly developed products to creative uses of information and effective human resource management systems".

From the literature, a number of elements of successful KM have been identified. HR can be seen as a strategic lever in creating competitive advantage through the value of the knowledge, skills and training. In order to understand better the nature of innovation, management must ensure that innovation is woven into an organisational culture. Several researchers have emphasised the pivotal role of the management of knowledge, particularly in creating an internal working environment that supports creativity and fosters innovation.

One way to achieve learning is by doing process benchmarking for innovations, which exactly seeks to identify the most effective innovation practices, from many companies that perform similar work functions. The power of process benchmarking lies in its ability to produce bottom-line results.

There are five disciplines that must be present in an organisation that strives to become a learning organisation:

(1) ***Mental models.*** Break down barriers for learning. This can be achieved by weakening each individual's mental assumptions.

(2) ***Shared values.*** The efficiency in the learning organisation can be assured by building up shared values, based on each individual's vision.

(3) ***Team learning.*** Learning must take place in teams, so that the synergy by learning in groups can be utilised.

(4) ***Personal mastery.*** The energy and the desire to learn in an organisation must come from the individual's striving for personal goals and visions.

(5) ***System thinking.*** Everyone must have a comprehensive understanding of the system. People must understand, how they influence and participate in the organisation, and thereby avoid sub-optimisation.

Garvin (1993) has suggested nine mechanisms as important for individual and shared learning. These nine aspects can be viewed as a supplement to the above five disciplines, in that Garvin's nine aspects are defined at an operational level:

- 1). - *training and development of staff;*
- 2). - *documentation;*
- 3). - *experiment;*
- 4). - *display;*
- 5). - *monitoring and measurement;*
- 6). - *use of different perspectives;*
- 7). - *challenge existing practices;*
- 8). - *development of a formal learning process based on, a problem-solving cycle;*
- 9). - *reflection - learning from the past.*

Just as continuous improvement has its basis in the PDCA cycle, so innovation can "be represented as a learning cycle, involving a process of experiments, experience, reflection and consolidation". Managing the process is primarily a function of the creation of conditions under which learning opportunities emerge and are exploited. A key determinant of relative success or failure is the ability to manage this learning cycle in explicit form.

Another way to look at continuous improvements in relation to innovation and learning is by perceiving it as continuous training and education of all employees with regard to the latest methods, techniques and tools within Total Quality Management. Employees have to participate in many different teams, be able to make quick decisions and communicate these decisions to everybody else in the organisation. This requires training and education.

5. The identification of knowledge capital within SMEs

KM practitioners cannot afford to ignore the value that can be gained from HRM. After all, people are the sole originators of knowledge. Traditionally owner/managers of SMEs do not pay a great deal of attention to their own development, in large part because of a perceived lack of time, when other priorities compete for attention. Where the owner/manager is highly entrepreneurial, the focus of business development is often on technical, financial or marketing based initiatives rather than on people development. Often very small firms do not have the luxury of employing a human resources specialist to help with the identification, design and delivery of development opportunities, nor indeed do they think of locating such activities strategically within company plans. Where this does happen, it has been found that the positive attitude of the owner/manager and his/her understanding of business benefits are the key driving forces. Effective recruitment of employees is crucial because it is through this process that knowledge and competences are brought into the organisation. Employees with the required knowledge and desired skills to fill knowledge gaps should be recruited.

Entrepreneurs, demonstrating creative flair and associated characteristics, will be able to translate their drive, motivation and creativity into action. They will bring about change and make things happen for them and their business. The entrepreneurial management is often described as[5]:

- **opportunistic:** *continually searching for new opportunities;*
- **value-driven:** *based on personal values and drive;*
- **value adding:** *seeking to increase the value of organisational resources;*
- **risk taking:** *able to accept some risk in introducing changes; and*
- **creative:** *able to innovate and take forward ideas into sustainable development.*

In the SME sector in particular the combination of entrepreneurial skill with commercial focus and continued knowledge acquisition and application will be the key drivers of success. Many venture capital companies connected with high-tech start-ups, also make it a prerequisite for the SME to have some demonstrable management team capability in place to take things forward. This is a very good reason for the SME to invest in staff and, in particular, in managerial development. Two levels of development are required, at senior management and the lower employee levels. Both of those levels are extremely important in the growth and development of the SMEs. A range of personnel were found to be responsible for human resource (HR) activities, including the identification of development needs. In

many cases this work is undertaken by senior managers themselves. A pattern of involvement by such parties is common in the SME sector. Employee development is seen as a way to improve and enhance the personal value of individuals. The skills and competences of knowledge workers need to be continuously developed in order for them to produce valuable contributions to a company. If not, as with other tangible assets, their value will depreciate. SMEs have to provide appropriate professional development activities to their employees.

In terms of a toolkit to be developed to help SMEs professionals, their approach to managing their human capital and ensure longer-term growth, a number of areas of content were identified from the research. These include:

- *strategic HR planning including assessment of labour availability;*
- *professional recruitment and selection;*
- *training needs analysis of new and existing personnel;*
- *performance appraisal;*
- *pay and reward strategies;*
- *career planning and development;*
- *HR policies and procedures; and*
- *employment legislation.*

It would also be possible to cover some of these areas through placing a particular HR focus on soft skills development included in any senior management development programme to be run by the university.

1. Conclusions

The management leadership and support are perceived to be the most critical factor, whereas measurement was the least. The critical factors of success in KM as well are useful for both managers and researchers. Since SMEs may not be able to manage all aspects of KM at the same time, an ordered list of the factors of success will provide a clue to SMEs to prioritise and adjust their KM practices.

Concerning the human capital and KM, the companies are considering how to grow their managerial talent at both the top of the organisation and at the next level down. A number of factors such as lack of resources, availability of personnel for release to undertake development programmes and types of development opportunities available were hindering their progress. Their small size and lack of specialist in HRM expertise, in terms of strategic HR planning, talent identification and utilisation in terms of career development, are very obvious.

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THE ENTREPRENEURIAL CAPACITY OF LOCAL AUTHORITIES IN SOUTH-EASTERN EUROPE - AN ENTERPRISE PERSPECTIVE

Theodore Metaxas*

Abstract

The article is looking into whether the management ability but also the inspection of development policies on the part of local city authorities influences the competitiveness of firms. Origin of this survey has been various approaches of the last decades which point out the significance of entrepreneurial capacity and the ability of local authorities to manage policies on local level. The analysis uses data from 310 small-medium size firms of Southeastern Europe. Through exploratory factor and cluster analysis the article concludes that the ability of Local Authorities to implement development policies, to develop co-operations with the private sector and to manage natural and human resources are important for firm competitiveness. At the same time it brings out the significance of these factors for the respective firms in the wider southeastern zone of Europe

Keywords: local authorities; firm competitiveness; management and control; cluster analysis; Southeastern Europe

JEL Classification: R50, R38, R58, R59

1. Introduction

Development policies, such as, reforms and reconstructions of urban areas (Adair et al., 2000; Balsas, 2000), the creation of an attractive entrepreneurial city environment (Christiaans, 2002; Stubbs et al., 2002) and the planning and implementation of strategic development plans (i.e. Jimenez-Moreno, 2001; Vasconcelos and Reis, 1997), are some of the efforts aiming at the reinforcement and the projection of places strength. An important factor for the successful implementation of development policies is considered the ability of local authorities to plan, evaluate and implement these policies (Syrett, 1994; Priemus, 2002). Taking as a prerequisite the interest shown, during the last years, into the need of existence of local actors with an entrepreneurial capacity, the article attempts to investigate how important is their role on the development and competitiveness of firms.

More specifically, the paper aims to investigate local authorities' capacity to plan, implement and manage development policies and partnerships in various sectors in four cities of Southeastern Europe. The added value of the article is considered important on two levels. Firstly, it contributes to the research made up to now, as to whether local development policies, are able to influence the development and competitiveness of firms. And, secondly, it approaches the appreciation of medium-size firms located in a very interesting, geographical zone; namely South-eastern

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Europe. Based on this prerequisite the article comes up with interesting conclusions concerning the firms in the study cities, while at the same time it brings out the significance of policy factors for relevant firms in the wider southeastern zone of Europe.

The paper uses primary data of local firms' appreciations about the role and the capacity of public local authorities to manage development issues in their cities (studied areas) that affect the development of the existing firms. More particularly six fields of local authorities' capacity are examined. The first one concerns the ability of local authorities to plan and implement effectively development policies, while the second on the ability to build and manage partnerships, especially with the private business sector. The third field concerns the management of the natural and human resources, while the fourth the ability to manage regulatory and legal rules. The last two fields concern the ability to improve the operation of the existing municipal public organisations and the management and control of the public investments that take place locally.

2. Local Authorities Entrepreneurial Capacity and Firms Competitiveness:

A literature review

Most research on competition among places builds upon Porter's (1990) 'diamond' model of competitiveness (Healey and Dunham, 1994; Kresl, 1995). Porter's "diamond" used three main building blocks, namely global competitive environment, competitive strategy and organizational structure to explain the competitiveness of firms. From his point of view, Kresl (1995) identified a dichotomy between 'economic' determinants (factors of production, infrastructure and similar) and 'strategic' determinants (policy factors and institutional design).

Focusing on the role of local authorities, several approaches stand that their role on cities and firms' development is crucial. The report 'Cities of the Future', developed by *PriceWaterHouseCoopes* (2005, p.3), stated that 'City governments, local authorities and decision makers, are highly complex organisations. They need to respond to the demands of different groups and manage the allocation of resources between different, and often competing, claims'. The existence of local authorities with 'entrepreneurial capacity' or 'organising capacity' emerges as a basic need, especially in the '90s (Hall and Hubbard, 1998; Kresl and Singh, 1999; Van den Berg et al., 1997). Van den Berg et al's studies (1997, 1999), showed that the most important factors for the formation of organizing capacity in the implementation of policies, are the clear definition of city vision, the capacity for strategic networks development and, finally, leadership. Furthermore, Cheshire and Magrini (1999, 2001) examine local policies and their influence on region development. Using data from 122 FURs for the periods 1978-80 and 1992-94, they improved the existing development model mentioned in former studies (Cheshire and Gordon, 1996, 1998) creating a new variable, that is 'policy capacity' which was measured as the ratio of the population of the FUR in 1981 to the population of the largest department of the

FUR. The results showed that the ability of effective development policies locally, is not a random procedure but it is related with a number of factors the commonest of which is the structure of the local authority - or the administrative ability.

In addition, a number of studies, award the significance of development partnerships between the public and private sector (Bennett and Krebs, 1991; Fuller et al., 2003). Bennett and Krebs (1991, p.22) supported that the base for the planning and the implementation of economic development actions on local level is *partnership* between actions which are developed by firms individually and actions which take place under the auspices of Local Self-Government, but also actions on higher governmental level. Bennett and Krebs (1991, p.21), approaching the relation between firms and local authorities mention the creation of 'entrepreneurial agents', which will manage and control the available resources and sort out the priorities in firms' actions with one another and with other public and business actors. A relevant argument has been expressed by Lowndes and Skelcher (1998, p.315) and Wallis and Dollery (2002), while Giaccherio et al. (2007, p.173, cited in Cantner and Malerba, 2007), supported that relationships between agents, and between agents and institutions locally, become an important element in the creation of dynamic competitive advantages, based on the formation, transmission and evolution of knowledge. More recently, Hagedoorn et al. (2000), awarded the establishment of partnerships between local authorities and research institutions, while Williams (2002), referring to the role of community strategies in the promotion of economic development and their contribution to the attainment of sustainable development in G.B., supported that the new model of local authorities should concentrate on the reinforcement of all forces activated in the environment of organizations and local communities. In a very recent study regarding the factors that influencing SMEs competitiveness in Western Region of Romania, Bibu et al. (2008) find that the governmental institutions have an important role in firms activities, considering that government and non government organizations can be more involved in consulting activities, creating a favourable environment for small-medium business, while the most important communication channel between firms and government are county organizations for SME's, chambers for industry and trade.

All the above factors lead to the seeking of those groups into the city which, having the knowledge, will act strategically towards the organizing of planning and the implementation of the chosen development policies (Cheshire and Magrini, 1999; Polidano, 2000). This fact, no matter how simple it may sound, is really hard to be achieved. We mention two main reasons: a) although the sense of strategic planning is based on the principles that apply to business environment, we cannot support that 'managing a city' is the same as 'managing a firm'. Firms have a clear administrative and hierarchical structure with clear profitability targets. In the case of cities we have competing groups with interests representation and different targets (Kotler et al., 1999, p.106) and b) local authorities have limited experience on entrepreneurial matters, being dependent, most of the time, on superior administrative actors, as far as decision making on the performance of specific actions is concerned (Van den Berg and Braun, 1999).

3. Methodology

By taking into consideration the previous discussion, the article tends to examine which groups of factors (fields of policies) have major importance on firms' development, and particularly for which firms. For this reason the article uses two methods of analysis. Firstly, exploratory factor analysis, in order to evaluate what groups of factors have the major significance of firms and secondly, cluster analysis to see for what particular groups of firms. As study cities were used Varna (Bulgaria), Bari (Italy) and Larissa and Volos (Greece). These cities were chosen because of some common characteristics. Specifically: a) they belong to Objective 1 regions of EU, b) are medium-sized (100.000- 500.000)¹ residents, c) because of their geographical position, three of them (Varna, Bari and Volos) are important ports in their countries, d) they are located far away from the EU decision centers, namely, on the zone of Southeastern Europe – Balkans and e) the research was funded by the European Union – European Social Fund & National Resources – EPEAEK II, and these cities accepted to participate in this project. The selection of Larissa was based on three reasons: a) because the city has a unique and strategic geographical position in Greece, b) is located close to the city of Volos (56 km distance) and c) because of their proximity, the two cities could be examined as a 'dipole' in relation to the cities of Varna and Bari that surpass in population the two Greek cities.

Research is used primary data from 310 firms from all production sectors (manufacture, commerce, services and tourism) and has the following characteristics: a) Research took place from May, 2004 to June, 2006 through questionnaires and personal interviews, b) the questionnaire includes open-closed questions and Likert scale was used (1-10), c) each interview lasted 25 to 45 minutes, d) 90% of the firms had over 30 employees and 90% were local, e) interviews were made with high executives and business-owners, f) the selection of the firms was based on data that the Commercial and Industrial Chambers of Bari and Varna but also the Industrial Association of Central Greece provided.

4. Cities, Firms and Local Authorities profiles in Southeastern Europe

The region of *Varna* is found on the northeast part of Bulgaria; it has an area of 3820km² and is an 'entrance gate' to the Black Sea. The city of Varna has a population of 343.000 residents and is the third biggest city in Bulgaria. The production profile of the city and its surrounding area is composed of metallurgy and machinery businesses, shipyards, shipping lines as well as of food industries, textiles factories and construction companies. On the other hand, *Bari* is found in the region of Puglia, on the south cost of the Adriatic Sea and is the second most important city of South Italy, after Naples, with a population of almost 312.000 residents. The traditional production sectors concern the manufacturing of agricultural and sea products. In addition the production structure of the city is composed of commercial firms, service businesses, soft industrial sectors (textiles, leather etc.) and automobile industries. A significant role in firms' competitiveness plays the port of Bari which connects Italy with Greece. Regarding the two cities of Greece, *Larissa* is the biggest

in area and population city of Central Greece, with 130.000 residents. Capital of the Prefecture and the region of Thessaly, Larissa holds a unique geographical position with economic importance, on the motorway axis Patras-Athens-Thessaloniki-Evzone, which connects the two metropolitan centers of Greece, Athens and Thessaloniki. *Volos* belongs to the six biggest cities of Greece (5th position), with a population of over of 120.000 residents. It is the capital of the Prefecture of Magnesia and geographically is located in Central Greece. Volos is one of the most important industrial centers with quite advanced geographical position among other Greek cities. The city is located a small distance away of the core motorway axis of the country which connects Athens and Thessaloniki, while the existence of city port has to be mentioned since it provides sea connections with other ports and islands of Greece (Strategic Development Plan of Volos 2006).

Regarding the profile of the *studied firms*, 54,1% of them belongs to the industrial/ manufacture sector, while 85,4% of them are local - something that means that the appreciation of firms is extremely important, since they are aware of the urban environment (weaknesses and strengths) as well as of the development policies applied by the local authorities, as much for the benefit of the cities as for the benefit of the businesses themselves. Regarding their age, firms' concentration appears in two time-periods. The first one 1990-1999, this concurs with the fall of the communist regime in Eastern Europe and the transition to a new social economic and political reality for the countries and the cities of South-eastern Europe. The second one is from 1979 and back, but because of its width it is not possible to clearly determine whether there was any distinctive concentration of businesses within a particular sub-period of this time period. Furthermore, concerning the number of employees a domination of small firms is noticed (60,5%), while 32,5% concerns medium-sized firms and a small percentage (6,8%) concerns the big ones. Consequently we report on small-medium firms in total.

Finally, shaping the *profile of Local Authorities*, in the case of *Varna*, the period after 1992 was for all the cities in Bulgaria a time full of challenges and changes, characterized by the need on the part of the cities to obtain an effective local administration, in order to become more able to compete for the attraction of investments both on national and international level (LGI, 2003). Since 1999, Bulgarian cities are forced to adopt a city development strategy (CDS) which constitutes the base for a long term development strategy (Tsenkova, 2004; Driscoll, 2002), while in 2003 *Local Government Initiative*, planed a series of development policies in order to improve the effectiveness of City Councils (Robison, 2003). For the first time, the Municipality is the basic administrative actor and local authorities have to oriented towards certain changes such as the acquisition of technical know how and practical experience or the development of relations and co-operations with the private sector (Kapitanova and Minis, 2003). As a consequence, the East European countries, and Bulgaria in this case, in the frame of the transition and adaptation period they run, are found in a very important stage of reconstruction of the role their local authorities are asked to play. As a result, their degree of experience, knowledge and actions lies on a low level.

In *Italy* the ‘new role’ of local authorities was a challenge whose main characteristics were the decentralization of powers and jurisdiction from the central government to the local authorities, accompanied by economic and managerial autonomy on local level. Municipality governments had always been the core of the Italian decentralization system, having their own structure and operation, being responsible for the planning and the implementation of municipal policies (transportation, zoning, social services, sanitation e.t.c.) [Piperno, 2000; COR STUDIES, 2004], while, during the last decade their frame of jurisdiction expanded covering a broader range of policies such as: the allocation of industrial incentives, education, heritage and environment conservation (Piperno, 2000). Meanwhile, Italy as a member-state of E.U., reinforced - through European projects – the regions of Target1 (South Italy, Mezzogiorno), contributing to their development.

In *Greek* cities, the system of decentralization and local authorities have undergone successive reforms, up to now, with the newest one being the proposal for a new Municipalities Code of Municipals and Communities in the frame of Law 2539/97 (Kapodistrias Law) [Besilla-Vika 2004, p.427]. The greater and more complex these reforms are the greater and more acute is the opposition resulting on local and regional level. In addition in Greece local authorities are dependent on government subsidies, a fact that questions their financial autonomy. In a more judgmental view of the institution, the verified non exploitation of all the potentials offered by the existing frame can be linked with notions such as: ineffective management, lack of know how or even poor management of the allocated funds. This fact surely affects matters of local development and competitiveness among cities, especially the ones with large populations. Moreover, on regional level, there is little entrepreneurial activity on the part of local authorities. Some of the reasons why lie on the lack of information, the small size of the existing firms and their short life-cycle, the negative idea that local societies have of entrepreneurialism (Besilla-Vika 2004, p.433). Unfortunately, in the case of Greece, the role of Local Authorities has always been regulated by the Central Authority. Therefore, the need for substantial reform which will meet the new requests of the society, to much greater degree now depends on the ability of the central authority to listen carefully to and foresee the new needs arising.

In conclusion, we can support that there are three main differentiations of nature of the systems of local authorities among the three countries, a) the fact that local authorities in Italy constitute the oldest administrative entity with clear orientation of its role and jurisdiction, something that in the case of Bulgaria was something unknown, till recently. In the case of Bulgaria the reconstruction of the political and administrative infrastructure, in the frame of a difficult adaptation to the new norms of the E.U., was based more on reliability and less on a well established experience and it started in the beginning of the 90s (Kapitanova and Minis, 2003). Finally, in the case of Greece, there is intense interference of the central government in the decision making procedure concerning development actions on local level b) The reconstruction of local authorities was accompanied by the need of existence of

specialized human resources with administrative abilities and skills, something that was a fact in Greece, as well. In Bulgaria, the economic and political changes had to take place simultaneously, taking into consideration the fact that there was no political experience in the taking of development actions under the conditions of the new European environment c) All three countries belong to different political, economic, social and cultural environments. The difference, however, is greater in Bulgaria in comparison to Greece and Italy. Italy is traditionally a great power in Europe and Greece has a 25 year long course as a member state of the E.U., while Bulgaria is just stepping onto the threshold Europe. These differences are crucial and consequently influence the environment of these three countries in different ways. As a result, all the production forces which act and operate in the internal environment of their regions and cities are influenced, too.

In the following sections, exploratory factor and cluster analysis are presented, in order to provide some answers to whether and on what degree some groups of the examined factors are important to the competitiveness of the specific firms taking part in the research.

5. Exploratory Factor Analysis

Exploratory Factor Analysis (EFA) is a widely utilized and broadly applied statistical and multivariable technique in the social sciences. EFA allows the interpretation of complicated phenomena that depended on multiple and often inter-related components (Costello and Osborne, 2005; Forina et. al., 1988). The usefulness of the method is proved by the fact that there is a wide range of its implementation in various fields of empirical surveys (Piscitello and Sgobbi 2003; Jang et al., 2002).

In EFA principal component analysis – PCA is used, which represents the linear combination $\kappa\alpha$ and proves the greater symmetry of data variability (Katos, 2004, p.532). The different combinations among variables are expressed through *eigenvalues* (i.e. the extraction sums of square loadings). More specifically, factor analysis aims to define those new variables whose eigenvalue is ≥ 1.00 . The reason is because variables with an eigenvalue < 1.00 , present an error variance that is difficult to interpret.

The hypothesis which is being studied refers to how responsible the degree of public local authorities capacity to plan and implement development policies which might influence (positively or negatively) the competitiveness of the firms located in these cities is. In our case we used factor analysis through SPSS18, in six (6) initial independent variables from which derived two (2) hyper-variables ($k=2$). These six variables refer to the fields of planning, management, control and implementation of development policies by local authorities. Our objective is to examine which policy development groups are formed so that in the cluster analysis that follows we can focus on those fields where the firms, on the whole, estimate that the ability of the local authorities to develop policies are likely to influence or not their competitiveness.

Figure 1 depicts the behavior of each initial variable towards the components, that is, to what degree each initial variable contributes to the formation of the main components (percentage of diffusion). The quality of representation of the six (6) initial variables is quite satisfactory since 64 to 80 % of each one's diffusion is included in the formation of the main components. Figure 2 shows those independent variables which contribute, at a higher percentage, to the total variance and present eigenvalues ≥ 1.00 .

Figure 1: New variables behavior towards the Initial ones

Variables	Initial	Extraction
Local authorities capacity to plan and perform development policies	1,000	,725
Local authorities capacity to build and manage partnerships	1,000	,743
Local authorities capacity to manage the natural and human resources of the areas	1,000	,640
Local authorities capacity to manage regulatory and legal rules	1,000	,459
Local authorities capacity to improve the operation of the existing public and municipal organizations	1,000	,789
Local authorities capacity to manage and control the public local investments	1,000	,802

Extraction Method: Principal Component Analysis

Figure 2: Total Variance through the analysis of the main components

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2,884	48,074	48,074	2,884	48,074	48,074	2,408	40,135	40,135
2	1,273	21,213	69,287	1,273	21,213	69,287	1,749	29,151	69,287
3	,667	11,115	80,402						
4	,492	8,200	88,602						
5	,354	5,907	94,509						
6	,329	5,491	100,000						

Extraction Method: Principal Component Analysis

In figure 2, two (2) (components or hyper-variables), with eigenvalues >1.00 are derived, explaining almost the 70% (quite satisfactory analogy) of the total variance of initial variables. The degree to which each variable participates in each new component is presented at figure 3. From figure 3 derives that the loadings of the

initial variables which are included in the new hyper-variables are > 0.60 and mainly between 0.75 and 0.86 , showing that these loadings can be considered very high in the total of loadings of the initial values (Bollen and Lennox, 1991; Chang et al, 2003). The behaviors of the variables of table 3, lead to the creation of eight hyper-variables, after three (3) rotations in a six dimensional space. The new hyper-variables are presented in figure 4. In addition, the reliability test was based on the estimate of Cronbach's α (Cronbach, 1951). Cronbach's alpha determines the internal consistency or average correlation of items in a survey instrument to gauge its reliability (Santos, 1999; Bussing et al., 2005; Jelenc, 2007). Internal consistency ranges between zero (0) and one (1). A commonly-accepted rule of thumb is that an α of $0.6-0.7$ indicates acceptable reliability, and 0.8 or higher indicates good reliability. In our case both hyper-variables present very high values of Cronbach's α , $0,934$ and $0,982$ respectively.

Figure 3: New Hyper-variables (N=310)

Variables	Components		
	Code	1	2
Local authorities capacity to plan and perform development policies	E15_2	,859	,073
Local authorities capacity to build and manage partnerships	E15_3	,850	,040
Local authorities capacity to manage the natural and human resources of the areas	E15_4	,763	,240
Local authorities capacity to manage regulatory and legal rules	E15_5	,559	,383
Local authorities capacity to improve the operation of the existing public and municipal organizations	E15_6	,058	,893
Local authorities capacity to manage and control the public local investments	E15_7	,222	,860
Cronbach's Alpha		0,932	0,982

Figure 4: Factor Analysis Hyper variables (N=310)

	Hyper-variables	Initial variables that included
1	MANAGEMENT	E15_2, E15_3, E15_4
2	CONTROL	E15_6, E15_7

The first hyper-variable *MANAGEMENT* is composed of the first three initial variables that concern the capacity of local public authorities to plan and implement development policies, to develop and manage partnerships with the private sector but also to manage the natural and human resources effectively. The second hyper-variable *CONTROL* is composed of the two initial variables that concern the control and the improvement of local public organizations but also the control and the management of the investments that take place locally.

6. Cluster Analysis

An important note is that factor analysis results bring out the significance of some factors and the groups that they compose, ranking these factors in particular

axes. Therefore, they do not lead in conclusions as to which groups of factors (hyper-variables) and for which firms (production activity, size, age) are significant, less significant or indifferent/neutral. Cluster analysis is a widespread method with multiple applications in various scientific fields (Mudambi, 2004; Paralles-Barbera et al., 2004; Morosini, 2004). Generally Cluster analysis aims to enlist the existing observations in clusters by using the information that already exists in some variables. At the current case, these variables are the hyper-variables of factor analysis. It is successful when it results in the formation of groups where the observations inside its group are as homogenous as possible but, at the same time, the observations among different groups differ between each other.

Figure 5 presents the final cluster analysis centers, regarding development policies fields by the public local authorities in the study cities. From the results we notice that among the seven groups – centers – there are clear differentiations. Figure 6 presents ANOVA testing, where we notice that the two hyper-variables hold high significance ($F \geq 2$, $df = 303$ και $p = 0.01$).

Figure 5: Cluster analysis Final Centres (N=310)

	Centres						
	1	2	3	4	5	6	7
MANAGEMENT	,08922	1,23865	-1,09924	1,48923	,33583	-1,10935	-,00057
CONTROL	-,83608	-,88900	-,60538	,61625	,44865	,71474	2,05816

Figure 6: ANOVA Testing

	Cluster		Error		F	Sig.
	Mean Square	df	Mean Square	df		
MANAGEMENT	41,409	6	,200	303	207,223	,000
CONTROL	40,860	6	,211	303	193,935	,000

Figures, 7 up to 10, present the number of firms per cluster in relation with their city, production activity, number of employees (for the year 2004) and established period. This analysis takes place in order to identify, each time, and the character of firms that compose each group but also to investigate what firms are responsible for the results of figure 5 and what conclusions we came up with based on these results.

Figure 7: Number of firms per cluster and city

		Number of firms per city							Total
		1	2	3	4	5	6	7	
City	VARNA	21	2	27	4	10	16	7	87
	BARI	27	13	19	5	15	11	6	96
	LARISSA	8	12	7	12	14	7	10	70
	VOLOS	9	10	6	7	15	8	2	57
Total		65	37	59	28	54	42	25	310

Figure 8: Number of firms per main production activity

		Number of firms per main production activity							Total
		1	2	3	4	5	6	7	
Main production activity	Industrial / manufacture	29	22	35	14	26	24	18	168
	Commercial	20	8	16	6	15	7	1	73
	Services	9	3	6	4	6	6	3	37
	Tourism	7	4	2	4	7	5	3	32
Total		65	37	59	28	54	42	25	310

Figure 9: Number of firms per cluster and size (number of employees)

		Number of firms per size							Total
		1	2	3	4	5	6	7	
Number of employees in 2004	0-49	48	16	34	16	35	29	10	188
	50-249	14	16	23	9	16	11	12	101
	> 250	3	5	2	3	3	2	3	21
Total		65	37	59	28	54	42	25	310

Figure 10: Number of firms per age (period of starting up)

		Number of firms per age							Total
		1	2	3	4	5	6	7	
Period of starting up	2000-2005	5	4	8	2	5	4	1	29
	1990-1999	25	9	29	8	15	16	10	112
	1980-1989	15	5	11	7	16	8	4	66
	Before 1979	20	19	11	11	18	14	10	103
Total		65	37	59	28	54	42	25	310

More specifically the clusters that derived from cluster analysis are the following:

Cluster 1: This cluster is characterized by the domination of the firms of Bari and Varna (48/65) that belong especially to industrial and commercial sectors and less to services. These firms do not show any extreme values for the two hyper-variables, however, their dissatisfaction from the factors which from hyper-variable *CONTROL* is obvious, while, as far as the values of hyper-variable *MANAGEMENT* are concerned, their stance seems to be indifferent and neutral. The majority of these firms employee up to 250 persons were established in the period 1990 to 1999 and some before 1979, that is, they are firms relatively 'young' but also firms with a traditional and diachronic profile in the market. In effect, the main characteristics of the firms' stance of cluster 1 are the dissatisfaction and the detachment from the role and contribution of local authorities on issues concerning the management and control on a local level. This is significant for two reasons: a) it comes from firms of various productive sectors and different experiences in the market, a fact which points out a timeless incompetence, on the part of local

authorities, to contribute effectively to the firms' development and b) this incompetence refers to both the decision makers of the city of Varna, where the management and control practices are new and unknown, and the ones in the city of Bari where the experience and the know-how are, of course of, a higher level.

Cluster 2: In this group we find firms mainly industrial and an average of over 100 employees with year-long presence in the market and located in the cities of Bari, Larissa and Volos. These firms estimate that, for the factors which constitute hyper-variable *MANAGEMENT*, the local authorities' responsibility is great and directly linked with their own competitiveness. As a result, these firms link their policy planning, the development of co-operations between public and private sectors and the effective management of natural and human resources, with achieving high competitiveness. On the contrary, they estimate that *CONTROL* of the existing organizations and investments by local authorities act negatively towards their own development (-0,88). In this cluster, the firms make a clear distinction between the ability of local authorities to manage specific development sectors and their ability to control some others. They are firms with long presence in the market, which means that their evaluation is a weighty one. Their evaluation highlights the existence of a significant problem in the issue management and control of local development and since most of the firms are Greek the aftermath of this problem concerns mainly the Greek reality and the role of local authorities.

Cluster 3: The evaluations formulated for the two hyper-variables in cluster 3, are negative. These values come from firms in Varna and, to a lower percentage, in Bari, which are mainly manufacturing and commercial, of big size (over 200 employees) and the majority of them were established between 1990 and 1999 but some of them before 1990. The values of the hyper-variables show a dissatisfaction of these firms on matters of *MANAGEMENT* and *CONTROL*. We can support that these negative estimations mainly come from firms in Varna, taking into account the fact that the role of local authorities throughout Bulgaria and therefore in Varna as well is rather weak as far the reinforcement of local development is concerned

Cluster 4: The composition of cluster 4 is characterized by firms from all cities but the majority of them from Larissa and Volos, with a domination of the industrial-manufacturing sector. Most of these firms employ up to 50 persons and were established before 1979. Contrary to the firms from Varna and up to a point to the ones from Bari, these firms give positive values to both *MANAGEMENT* and *CONTROL* hyper-variables. More specifically, they give a very high value to hyper-variable *MANAGEMENT*, showing this way that degree of ability of local authorities in matters of planning and implementation of policies but also building partnerships with the private sector, are all factors which influence positively the competitiveness of these firms. The main characteristic of this cluster is the trust shown, mainly by Greek cities' traditional firms, in the development policies of local authorities diachronically. Of course, it would be risky to base the whole dynamic of these policies on these firms' evaluations only but owing to their year-long participation in the market their stance is considered significant.

Cluster 5: In the composition of this cluster there are firms from all four cities. They are mainly industrial-manufacturing firms and services but a large part of them belongs to other productions sectors. The majorities of them employs up to 200 persons and were established before 1990. The firms in this cluster are characterized by an intense indifference for the significance of the factors both in matters of planning and management and in control. The positive values they give to the two hyper-variables clearly do not express a negative attitude of these firms towards the factors which form the profile of the two hyper-variables, but in no way, either, do they express any positive influence of these factors on the competitiveness of the firms in this cluster.

Cluster 6: In this cluster, as in cluster 3, Varna's firms dominate and the majority of them are industrial/manufacturing with fewer than 50 employees and established in the periods 1990 to 1999 and before 1979. As in cluster 3, the firms of Varna express their dissatisfaction towards the factors of hyper-variable *MANAGEMENT* giving it a high negative value (-1,10), while, at the same time give a quite high positive value (0,71) to the factors of hyper-variable *CONTROL*. Combining the estimations in clusters 3 and 6, we can support that for the firms of Varna, both small-medium and large size, the factors referring to the management of planning and co-operations with the private sector as well as the management of natural an human resources, in the present stage are not linked to competitiveness of the city's firms. As a result, the total image shows that the ability of local authorities in Varna is limited and weak. A fact that influences negatively both the development of local firms and the development of the city itself.

Cluster 7: In the last cluster there is a domination of Larissa's firms but there are also some firms from Bari and Varna. The total number of these firms is 25, a rather small number, which does not let us reach any general conclusions. The firms in this cluster are mainly manufacturing and many of them employee up to 250 persons, were established between 1990 and 1999 and before 1979. These firms give a high positive value to the factors of hyper-variable *CONTROL*, showing that the ability of local authorities in issues of control and improvement of the functioning of public organizations in conjunction with the control of investments on local level, have a positive influence on their competitiveness.

By examining the attitude of the two hyper-variables towards each cluster of firms, there derive the following:

First of all, the hyper-variable *MANAGEMENT*, in four out of the seven clusters, receives high extreme values, two positive and two negative. Positive values are given by the firms in clusters 3 and 6, and negative ones are given by the firms in 2 and 4. The number of firms in clusters 3 and 6 is bigger than the number in 2 and 4, a fact that leads us to the conclusion that ...the majority of firms belonging to clusters 2,3,4 and 6 give high significance to the factors of planning and co-operations development, with a high responsibility on the part of local authorities in the nature of this influence (positive or negative) for the firms, but on the other hand, by most of the firms this influence is considered negative.

Combining these results with the analysis per cluster that preceded, we come to the conclusion that ...The factors comprising hyper-variable *MANAGEMENT* - for a large number of industrial/manufacturing firms in the Greek cities mainly but also in Bari, with long presence in the market - have a positive influence in firms' competitiveness.

On the contrary, these policies have ...a negative influence mainly for the manufacturing firms of Varna and Bari with up to 250 employees and established between 1990 and 1999 or before 1979.

As regards hyper-variable *CONTROL*, no other extreme high value is derived apart from the one in cluster 7. The interesting conclusions are two a) the lack of extreme values (either positive or negative) shows an intense dissatisfaction and perhaps an indifference on the part of the firms towards the ability the local authorities in their cities to combine activities of control and improvement of public organizations and local investment schemes with the development and competitiveness of local firms, and b) this dissatisfaction is more obvious in clusters 1,2 and 3. Combining the image of these clusters with the preceding analysis, we reach the conclusion that the industrial and commercial firms of Varna, established between 1990 and 1999 estimate that the factors of control have no positive influence on their competitiveness. Comparing this picture with the estimation of the specific clusters for the factors of hyper-variable *MANAGEMENT*, we come to the conclusion that

...for the firms in Varna, the factors comprising the two hyper-variables (*MANAGEMENT* and *CONTROL*) have no influence (positive or negative) on their competitiveness.

There is a high positive value (0,71) for *CONTROL* by some firms from Varna in cluster 6, but it alone cannot belie the above conclusion.

On the other hand, the estimation of the firms in cluster 2, which come from the other three cities in this study and have the same profile with the firms in clusters 1 and 3, is negative towards *CONTROL*, but contrary to the firms from Varna these firms recognize the importance of hyper-variable *MANAGEMENT* and the positive influence it can have on their competitiveness.

7. Conclusions

The aim of the article was to point out the importance of the ability degree of local authorities in the implementation and materialization of development policies and in the competitiveness of small-medium size firms in Southeastern Europe. We will support that the study leads to significant results as it attempts to determine the role and contribution of local authorities to the competitiveness of firms in a quite significant geographical zone, namely that of south-eastern Europe; while at the same time it contributes to the existing, rather limited, studies concerning issues of linkage between the ability of local authorities to implement development policies effectively so that they benefit the entrepreneurial world as well as the areas they rule. Through the study of a cross section of firms (n=310) in four medium size cities of

Southeastern Europe, Varna, Bari, Larissa and Volos, and by using factor and cluster analysis, the article reached specific conclusions which are the following:

The first conclusion derived is an apparent dissatisfaction, on all firms regarding the role of local authorities and a feeling of questionable contribution to local development. Although the international practice, points out development policies and planning as basic parameters for both cities and firms' competitiveness, with the aid of competent local authorities, the present analysis reaches the conclusion that local authorities in the studied areas is dependent on the central administration bodies and with restricted ability in planning and policy implementation.

More specifically, the factors related with the local authorities ability to plan and implement development policies, to develop and manage co-operations with the private sector but also to manage effectively the natural and human resources of cities (MANAGEMENT), are regarded as very significant by the majority of the firms in the study and especially from Greek firms. The responsibility of local authorities regarding the effectiveness of the above factors is great, at the present stage, and their influence on the firms' competitiveness is negative, except some large traditional firms in Greek cities.

Alongside this, as far the fields of control of public investments taking place locally and the upgrading of the operations of public organizations are concerned, the majority of the firms estimate that the effectiveness of local authorities on these fields has nothing to do with their competitiveness.

In conclusion, we will support that, except for the firms of Varna where the role of local authorities at the present stage is estimated ineffective, the firms of the rest of the cities attribute great importance to issues of urban management, estimating that local authorities' responsibility for the effectiveness of such issues is highly important and directly linked with their competitiveness. It is easily comprehensible that the firms in the study turn their interest to issues concerning the know-how of local authorities which the effectiveness of the policies they implement is dependent on.

Summing up, we will conclude that for small-medium size firms in Southeastern Europe, the ability of local authorities to manage co-operations on local level, to plan and materialize development policies and manage natural and human resources, is directly responsible for the effectiveness of development policies as well as the impact (positive or negative) these policies might have on firms competitiveness.

The above conclusions support Kresl'S views but mainly those of Kotler et al. and van den Berg and Braun, who focus on the restricted ability and know-how of local authorities to act effectively on local level. This fact is obvious in the estimations of all firms and is related, undoubtedly, to the existing regime and political system of the local authorities in each region respectively. The existing aggregate system and the lack of initiative which characterize, to a great extend, the Greek cities, as well as the lack of managerial practices and checks, mainly in the former eastern-Europe countries, are sure to affect development actions and policies on local level, which, in turn, act as a deterrent for the entrepreneurial environment,

creating this way an intense challenging and dissatisfaction towards local authorities, constitute the picture that is derived from the facts of the present study.

Finally, we have to point out that the above conclusions regard primarily the firms and the cities of the study. The specialized techniques of statistic analysis used (factor and cluster analysis) showed, to a great extent, the estimations and the attitudes of a great number of industrial/manufacturing firms, mainly, regarding the specific characteristics, the development policies and the fields on which these policies can be implemented, pointing out the degree of responsibility of local authorities for the cities themselves where the firms act and develop. From this point of view, the conclusions of the analysis are highly important and interesting, contributing to the scientific approaches made up to now, but also determining the fields where there is need for clear planning and implementation of specific policies aiming at the local economic advancement and the competitiveness of both cities and firms.

Furthermore, both the choice of the cities and the cross-section of the number of firms in the study, allow, up to a point, the generalization of the conclusions for the total of small-medium size firms in respective cities of Southeastern Europe. The above remark is important since the study at hand would be more representative if the sample of both the study areas and the firms was larger.

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LEADERSHIP AND CRISIS

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Abstract

The task of leading during an unremitting crisis is not an easy task. Economic crisis made possible another kind of difficulties inside companies and I refer at the crisis of the leadership. Today's transnational companies are affected by often unexpected events virtually everywhere in the world. In this unpredictable environment, leaders must be able to create and shift tactics, all the while keeping larger goals in prospect and performance results on target.

Keywords: leadership, crisis, business environment

JEL Classification: F23,H12,M21

1. Introduction

It would be extremely comforting to view the current economic crisis as simply another rough spell that we need to get through.

Regrettably economies cannot create a firewall against global competition, energy constraints, environmental changes, and political instability. This financial crisis which will come to an end sooner or later will set almost certainly the stage for a sustained or even permanent crisis of severe and unaware challenges.

2. Heading

The task of leading during an unremitting crisis is not an easy task. Economic crisis made possible another kind of difficulties inside companies and I refer at the crisis of the leadership. It has two distinct phases. First is that emergency phase, when the objective task is to calm the situation and buy some time. Second phase is the adaptive one, when you block the underlying causes of the crisis and build the capacity to bloom in a new reality. The adaptive phase is especially delicate: the staff put huge pressure on leader to respond to their anxieties with authoritative certainty, but if the leader will request them to make essential and painful adaptive changes in their manners or work, they may try to bring him down.

The danger in the current economic situation is that leaders will act wrong. They will try to resolve the problems with short-term solutions: constricted controls, across-the-board cuts, reorganization plans. That is understandable because no one in a position of authority has been here before. So, an organization that depends exclusively on its senior managers to deal with the challenges risks more than others failure. That risk increases if the leader draws the wrong conclusions from the apparent recovery of the economic recession. This scenario is well known in the

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medical literature. When a patient arrives at the ER, medics will treat first the most critical symptoms. That will often create an illusion of fast recovery. But this does not mean that the patient is now cured. In many cases this first recovery will be followed by an aggravation of the deepest causes of the disease. This is happening because the patient will act as a healthy person at the first signs of recovering, ignoring the fact that he is still sick and not able to live like a normal person. In the real economy crisis will create also the wrong perceptions of periodical improvements of the economic environment. If leaders are deluded by the apparent recovery of the economic recession probably disasters will happen.

Crisis management specialists speak of the *Golden Hour* of crisis response, invoking a metaphor originating also from emergency medicine. The Golden Hour refers not to a particular period of time, but to the actions that delay in responding to a crisis which will have greater impact on the outcome.

Leaders who practice what is called adaptive leadership do not make this error. Instead of kneeling down, they grab the opportunity of moments like the current one to hit the corporation's reset button. They use the confusion of the present-day to build on and bring ending to the past. In the process, they change main rules of the game, redesign parts of the organization, and redefine the people activities. In fact this process of adaptation is at least as much a process of preservation as it is of redesigning.

But it is clear that the company and employees will experience loss. Some parts of the corporation will have to perish, and some jobs will be eliminated. As personnel try to develop new skills, they'll often feel humiliated of their unskillfulness. In this process the leader must reveal empathy. That is because he will need people's help and not obedient blind loyalty because nowadays the future is building with enthusiastic approach in discovering paths and not with submissive indifferent existence.

Real leadership response to any crisis is a competitive advantage; ineffective crisis response causes a competitive disadvantage, and can even put an enterprise's existence in danger. Whether an organization survives a crisis with its condition intact is determined less by the severity of the crisis than by the timeliness and effectiveness of the response. Speed matters, and time is a leader's enemy in a crisis. When a crisis appears, the usual business processes and decision rates need to be suspended and decisions need to be made in ways that reassure key investors that a company and its leaders understand that there's a problem and are taking steps to address the problem.

In the present-day context, leadership is an art. The skills that enabled most executives to reach their positions of command can get in the way of success. Although these skills will at times still be appropriate, the adaptive phase of a crisis requires some new leadership practices. Managers today face two competing demands. They must execute in order to meet today's tasks, and they must adapt what and how things get done in order to succeed in tomorrow's world. These dual tasks can be practiced by leaders and managers and also by people who do not happen to be at the very top of an organization.

As I already said getting an organization to adapt to changes in the new environment is not easy. As considering removing practices that seem ill suited to a changing environment, leaders must differentiate the essential from the expendable. But how to tell for sure what is essential and what isn't? Because it is hard to say what will occur in a crisis situation it's prudent for the leader to avoid grand or detailed strategic plans. Instead, he has to run numerous experiments. Many will fail, of course, but that winding path will be emblematic for the company's ability to discover better products and processes. Let's take a moment and reflect on one giant software company strategy. Microsoft has developed a strategy to reduce costs with testing new products. Instead creating his own wide testing divisions, this company offers to public beta versions of his future products: version 2.0 or 3.0 of one product is an explicit acknowledgment that products coming to market are experiments, prototypes to be improved in the next iteration.

Without perseverance, difficult change becomes far less likely. But if staff feels too much distress, they will fight, resign, or freeze. The art of true leadership in today's world involves coordinating the expected conflict and confusion of change so that the metamorphoses are productive rather than destructive.

Keeping a company in a competitive zone even if the business environment is defined by instability is a delicate task; in the practice of leadership, decision making process must act like a thermostat. If the heat is constantly too low, employees won't ask uncomfortable questions or make difficult choices. If it's constantly too high, the risk for organization solidity is to meltdown, people are likely to panic and kneel down.

Maintaining the right level of disequilibrium requires that a leader must depersonalize conflict, which naturally arises as employees experiment in an environment of uncertainty and turbulence a sudden shift in carrier. The goal for the leader is to focus the disagreement on issues, including some of his personal viewpoints, rather than on the interested parties. That game requires that a true leader must create a culture of courageous conversations. In a period of uncertainty, the most difficult topics must be discussed and not avoided.

Corporate adaptability comes today not from some new initiative dreamed up at headquarters but from the accumulation of micro adaptations originating in company responses to its many microenvironments. Even the apparent successful big show made by corporations in our days is typically a product of many experiments, one of which finally proves path breaking. In the same time, it is an illusion to expect that an executive team on its own will find the best way into the future. So a true leader must use leadership to generate more leadership deep in the organization.

Single executives just don't have the individual capacity to sense and make sense of all the change spinning around them. They need to distribute leadership responsibility, replacing pyramid and formal authority with organizational bandwidth, which appeals on collective intelligence.

To distribute leadership responsibility, a true leader needs to mobilize everyone, the entire team, to generate answers by growing the information flow that allows employees across the group to make independent decisions and share the lessons they learn from successful or unsuccessful efforts.

New leadership and innovative ideas generate the need to be influenced by diversity. Most of managers tend to spend time with people who are similar to them. But if they do not engage the widest possible range of life experiences and views they risk operating without a nuanced picture of the shifting business environment.

Finally a real leader must not lose himself in his own character. Defining life through a single endeavor, no matter how important his work is to him and to others, makes the person vulnerable when the situation changes, it also denies him other chances for success.

Speaking about leadership, the pattern of evolution of leadership development over time revealed a shift that the current economic forces have brought into sharper focus. Economic literature present this process as the evolution from Leadership Development 1.0 through 2.0 to the emerging 3.0 level.

Leadership Development 1.0 was the traditional, early approach to leadership development, with the focus on the individual executive. This approach usually provided image time away from the office, generally in rich surroundings, as a perk for the privileged senior leader. The input was mainly academic, with little emphasis put on implementation or execution and little assessment of impact.

Over time, Leadership Development 2.0 emerged. Increased focus was put on team development or cross-company connections and learning groups with other companies. Training was introduced as a supplement to formal executive education; there was more of a mix of hard and soft skills and more emphasis on action-learning projects.

Leadership Development 2.0 began to focus more on addressing business priorities, developing cross-company relationships and supporting effective execution. However it was still largely predicated on a model of developing the capabilities of specific individuals, using the methods chosen or developed by the corporate leadership development function.

More recently we have seen evidence of what we are calling Leadership Development 3.0, characterised by a team-based focus, originating from specific strategic or operational business issues and much more integrated with regular day-to-day work processes. There is a trend toward learning from one's peers within the company but at the same time developing long term relationships with a small number of trusted external partners, who know the business well and can offer insight and challenge while supporting effective execution on a day-to-day basis. This more integrated and focused approach to leadership development – linked to specific business challenges - has become more pronounced as a result of the current economic pressures.

Supporting leaders through their decision-making in difficult times, using a diversity of catalysts to help reframe complex challenges so that they can be seen with fresh eyes, building capability around specific business needs: these are fundamental aspects of Leadership Development 3.0.

Concerning the future trends of the leadership during this deep economic crisis period two outcomes from this year's Best Companies for Leadership survey, conducted by Bloomberg BusinessWeek.com¹ and Hay Group, stood out.

¹ www.businessweek.com

First, the Top 20 companies for 2010 are significantly more likely to be mostly focused on "positioning for the future" than other corporations.

Secondly, there is a revealing shift in what the top corporations values in leaders. We can see how companies started appreciating the ability of leaders to achieve results through others and how those choices migrate this year to strategic thinking.

Last year's focus on execution was a clear reflection of the chaos that virtually every business had to deal with. This year's emphasis on strategic thinking suggests that businesses today are reviewing their options, reconsidering their strategies, considering new opportunities and innovations.

This article revealed that most companies were highly committed to emerging leaders from inside their ranks. This time around, more enterprises have recognized the value of having experienced managers ready to help lead the way into the new opportunities that accompany a recovery.

Confusing matters, today's transnational companies are affected by often unexpected events virtually everywhere in the world. In this unpredictable environment, leaders must be able to create and shift tactics, all the while keeping larger goals in prospect and performance results on target.

Certainly, one result of the economic crisis is the cry for a new style of leadership. Since September 2008, the leadership and management practices of financial institutions have been widely discredited. This has caused new thinking about groups and leadership within financial-services - and in business in general. The new leadership styles that succeed, and associated changes in management and governance structures, will shape the development of business institutions mostly. It isn't yet clear what norms and values the new industry leaders will win, but the pressures on them are evident, and the history of managerial culture suggests that we will see some major transitions, and some unexpected ones.

In creating teams, boards will tend to favor a diversity of characteristics, and they should guard against the drift toward homogenization. Further, power and control will be separated more actively and structurally. There may be a segregated, internal governance structure in some organizations whose role will be to audit and hold to account those with primary decision-making authority. Rather than accepting conventional wisdom and existing policies, they will need to look for disconfirming facts and contrary evidence.

This type of governance structure is made even more necessary by the fact that only a few percent of new CEOs today come from outside the company. Many corporate leaders will therefore need organizational innovations that provide visibility and challenge to management at quite detailed levels.

3. Conclusion

There is a risk that such governance models will simply re-create the old bureaucratic staff structures that hobbled companies in the 1960s and 1970s. What we will need is firmly limited roles and processes, a separate voice and perspective, and a smaller number of resources and processes. This additional, shared, and

relatively informal approach will require leaders who are unusually holistic, integrative, and dispassionate in their character and thinking. This is not a time for leaders who will be ambushed by details, nor for those who are convinced they see the future clearly and want their organizations to fall in line. Rather, they must see the general patterns, and see them better than others, while recognizing, not suppressing, the risk and uncertainties.

What we cannot see at the end on 2010 is a new healthy global image of the economy. Instead, despite the fact that the most developed world economies are slowly recovering, in many countries the economic crisis is far to be ended. We have no clear answers in what we have to do to avoid future crises such the present one. We have no clear leadership tactics fully validated by the present still volatile business environment. Writing these lines I am concerned of the fact that modern leadership took recent positive signs coming from the world economic environment as an indubitable out of crisis signal. In my opinion, based on everyday living, the present economic crisis dos not arise to an end. As I wrote at the beginning, the world economy is feeling better now but it isn't healthy yet.

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**INVESTING IN IT: SOME CHALLENGES FOR GLOBALIZATION
PROCESS IN ALBANIA**

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Abstract

Globalization is an inevitable and irreversible process. The globalization is the philosophy that support establishment of private company (business) without boundary and in the all word. It is the irreversible process. The ideology of globalization is that the world is the big market where each company, undistinguished the country, has the access (the right) to compete without national or local boundary with the others company. The money, the technology, and the stock have moved fast between the countries. Together with products and the finances also the ideas and the cultures are moved freely. The FDI in ICT are the most important factor for the development of this sector in Albania and has more to do to stimulate the foreign investments. How it will be the process of globalization for Albania within the ICT context of investment? Why so many multinational corporate are addressed to invest in ICT sector in Albania? How can explain the fast economic growth of ICT investment in Albania?

Keywords: Globalization, ICT, Investment, Albania

JEL Classification: M15, O10, O52

Globalization and Albanian Economy

Globalization is an inevitable and irreversible process. To treat globalization so put as to raise the positive aspects and lower negative ones is maybe the biggest purpose of the millennium. Possibilities for the globalization to have success are enforced to expel new dangers, mostly to the developed countries.

Albania lately has reached an adoption with the international institutions as BB, MNF, etc., making a step further into the global trade. Yet Albania needs an economical and political strategy, which will be able to drive the country on an active position to the global economy.

Globalization is shown in many ways but first it is seen under economical and financial terms. On this concept it can be conceived as a large and deep connection with the national economy under world trade goods, services and especially capital assets. As a result of the revolution in telecommunication and informational technology, on the last 15 years there has been huge progress on the trade connection and international exchange of capital as well as radical change on the form, structure and pace of production. The positive consequences are:

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Economical Growth. It is theoretical argued that it will bring an efficient delivery of a country resources towards the sectors and fields where they have a competitive advantage. Focusing on the Albanian conditions, this means to high coefficient industries under working utilization force because of the low cost it has and this helps in the increase of the national economy. The poor layer will profit from this increase by getting employed from these industries. On the other hand it is essential to be invested on the human resources (education and training) to increase their working efficiency. There were made many researches by the World Bank and others, and they show that generally the rapidly increase of the economy is accompanied by the reduce of the poorness. This is the reason that the World Bank adds the pressure on different states (including Albania) to be driven towards free trade and WTO. In fact, there is no lack of the facts of both success and failures. For the last mentioned, generally the fault remains to the performance of the national institutions.

Improvement of the relationships between different countries, through inclining the rate of the conflicts and through raising the rate of cooperation between them.

As a conclusion, the increase of the chances for survival and success in the era of globalization needs an immediate role of the government and of other important principals for the Albanian economy reconstruction through specific programs which would drive the Albanian economy towards the sectors which have higher possibilities of development. Such are: industries with high coefficient of the usage of manpower, the organic agriculture, tourism, the medical and aromatic planting industry, the confections industry, etc.

The confront of the civilization. The disappearance of the economical boundaries between countries brings about the mixture of the different traditions and mentality and this could cause unexpected conflicts.

The bankrupting of small companies, which will be obliged to accept the loss before giant companies or to be their allies, under conditions established of course by the strong.

Increase of unemployment in western countries, which have high living-cost, because the companies of course will employ people from poor countries to apply a lower salary.

Difficulty of control which means that each phenomena enlarging to global sizes, represents a danger, because every moment it can come out of hand and have unpredictable consequences.

While the most known view of the globalization on the last decade is the rapid integrity of the stock and financial trades; trade and investments are the main power standing under the curtains of globalization.

The discussions coming from the field of FDI are important part of the whole globalization process. FDI can play an important role raising the capacity of the host's country in order to respond the chances offered from the world economy integration, a purpose known as the main one for the strategic development.

FDI in the last two decades were part of the main elements of globalization and world economy. And especially they have an economic impact within an economy through the ICT sector. Companies from different countries are spreading more than ever taking part in many industries through direct investments. An economy competes virtually together to get rid of multinational companies. As a result, world investment fluxes have reached higher levels.

2. FDI AS A VERY IMPORTANT CHALLENGE WITHIN THE GLOBALIZATION PROCESS

The FDI fluxes are rapidly growing the last days. The highest fluxes of FDI in the world shows an economical environment always improving, this on the presence of reforms and political orientation towards investments. The growth of FDI has reached record levels. This was brought by/stimulated also by the extinction and international purchases of the companies. The higher the fluxes of FDI in a country the more occupation that country could have. FDI create more occupation in productive sectors than in any other sectors. Throughout the years many countries have created a welcoming environment on their places with the clear purpose to gain more funds to be invested in the country.

Structural and short-term conditions in favor of the growth of FDI

Growth of FDI until 2009 is explained in 3 main factors:

- a. continuance of the long-term inclination which are engrossing for the multi nationalization of the companies
- b. long-term and short-term economical view characterized by stable growth and financial sources available
- c. necessity of new resources and opportunities for investments

Governments of the countries under development perceive the FDI as a source for economical growth, this is also shown by the growing reality of the places interested for this investments. FDI play positive role in the economical development through intrusion of capital, contemporary technology, on the marketing and management field, on rebuilding the economy, speeding up the denationalize rate, entry of new job opportunities, raise of exports, improvement of the salary balance, etc. for all these reasons they hold a special importance, especially for the countries under development and it is necessary the creation of suitable strategies to attract these investments. Taking a glance at the value that foreign investment directly holds (FDI) for the economy of a country and the interest that Albania has shown towards it, I thought it was of a great value making a study of this kind.

3. Factors affecting low level of FDI in Albania

Low levels of IDH in Albania could be attributed partially:

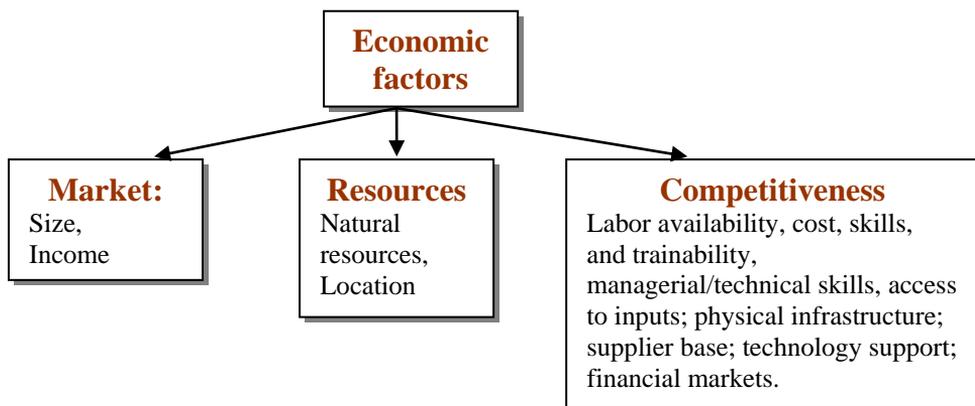
- Slow process of the states medium and big companies' denationalization under the industrial sectors which have high capital intensity and of the strategic sector like energy and telecommunication.
- Low interest of foreign investors as a result of a political percept risk of the

country connected with social violence on the past and on the other hand the political changes in Albania and the lack of stability in Balkan and Kosovo.

- Image problem that Albania has created to the foreign countries.
- Problems and conflicts connected with land ownership, bureaucratic procedures for the register of ownership rights, for the approval and construction license authorization create barriers to the foreign investments.
- Informality levels of economy, which is a fact that brings about a wrong competition of trade.
- Lack of efficiency and high cost of infrastructure (transport, energy, water) and the missing of industrial places for the FDI oriented towards export and tourism.
- Lack of abundance in financial services, benches or not (low level of credits, low quality of financial services for the international trade, high rate of interest, high request for collateral, etc.
- Low function of public institutions and low application of law.

Albania has made a considerable progress in transition reforms, economic growth and development, considerably influenced by FDI inflows too, and in improving the peoples' quality of life. However, the country still enfaces a number of challenges coming from the need of overcoming the bottlenecks in the structural reforms. The intensification process of country's integration into the EU requires decisive steps in meeting the political, juridical and economic criteria. A similar pressure is coming from the regional integration processes. Albania is making significant progress steps in the recent years related to business environment and investment climate such as business registration, fiscal burden, etc. Again important barriers to business and investment exist. Good laws and regulation doesn't mean necessary good climate for business; it depends on the extent and the way these laws and regulations are applied.

Fig. Determinants of FDI in developing host countries



Source: UNTACD 2000, p, 19

4. Elements of a strategy to stimulate investments

FDI role could change from place to place, depending on the governmental and economy nature. There exists no ideal development of FDI that can be natural to all nations at all times.

This way Albania could attract three types of investors:

Investors based on the sources research, which could be interested in mineral reserves, forests, petrol, gas. First investment companies could be international companies of refinery or mine. Then it could be the aim towards production of the minerals.

Investors based on trade research, which could be companies interested to enter the Albanian consumption trade and the creation of a presence growing with the growth of the trade. On this category it is important the stimulation politics of FDI on strategic sectors (telecommunication, energy, bank sector, transport, water) as well as other private investments in infrastructure.

Investors based on the efficiency assumptions, (or FDI oriented towards export). These would be more outside of strategic sectors and infrastructure, for production of products in export and re-export.

5. Stimulation and attraction of FDI

The stimulation and attraction of FDI is a high rivalry and a specialized activity, on a growing number of the countries looking to attract active foreign investors and also from many systematic sponsored campaigns.

Now a considerable experience is present on the strategies and techniques used for the attraction of FDI and in the part of which could function and which can not.

Attraction Investment Agencies from all over the world use many techniques to attract FDI through:

Creation of image – is the most suitable when investor's image over a place as a destination for investment is less favorable in reality, and where fore-requests to attract investments are present.

Investments generation – represents the identity of potential investors, which are more interested for a place, development of a strategy to contact and cooperate with them, with the intension to make them be involved in investing. Specific used techniques to generate investments include: campaigns through telephone and post, seminars for the investments, missions run inside and outside boundaries and the direct marketing.

Service towards investors – could split into two components: fore and after approval services.

Fore approval services – is focused on the investors approach referring to the requirements over which the decision to invest has already been taken and the project has been approved (if it is necessary)

Service after the approval – or after taking the decision if no approval is requested, is considered a necessary activity, including here bank field and industry operations on some fields like: assistance in having a indispensable infrastructure like telecommunication, energy, water and canalization: ensuring the main contacts with the government, business and community.

6. Albania ICT Sector under the context of globalization

In 2009, the IT market in Albania totaled \$106.18 million, representing a 9.4% year-on-year decline in U.S. dollars, from an exceptionally high base year. However, measured in local currency, the market was up 2.3% year on year. In the near future it is expects that Albania IT spending to rise by 6.1% in 2010, from 2009. Over the five-year forecast period, the country's IT market is forecast to expand at a compound annual growth rate (CAGR) of 6.9% to reach \$148 million in 2014.

Details on the performance of each technology group in the IT market last year are provided below:

- In 2009, spending on IT services slumped by 32.5% year on year to \$12.12 million.
- The leading international companies in ICT sector has note that Albania IT Market 2010–2014 Forecast and 2009 Vendor Shares (IDC #ESQ06S) December 2010 Albanian IT services providers (supply side) were Horizon, Info soft Systems and Printed.
- Spending on licensing and maintenance (L&M) for packaged software declined 27.9% to reach \$9.20 million in 2009. The top three software vendors in Albania were Microsoft, Oracle, and Sagem Securite.

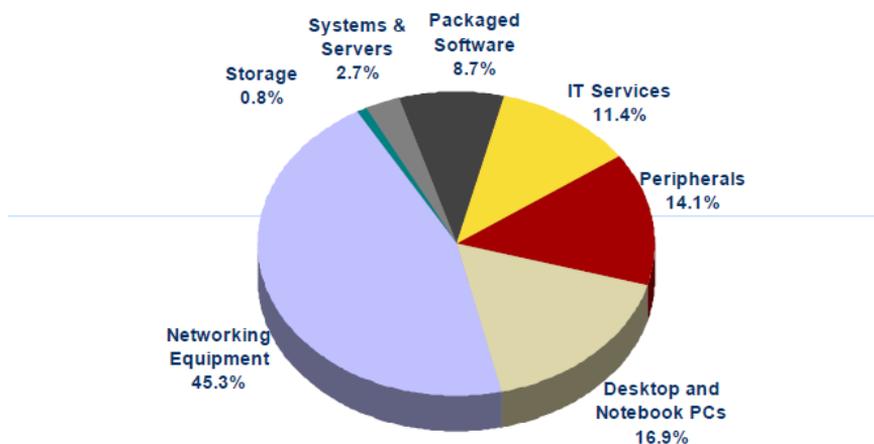
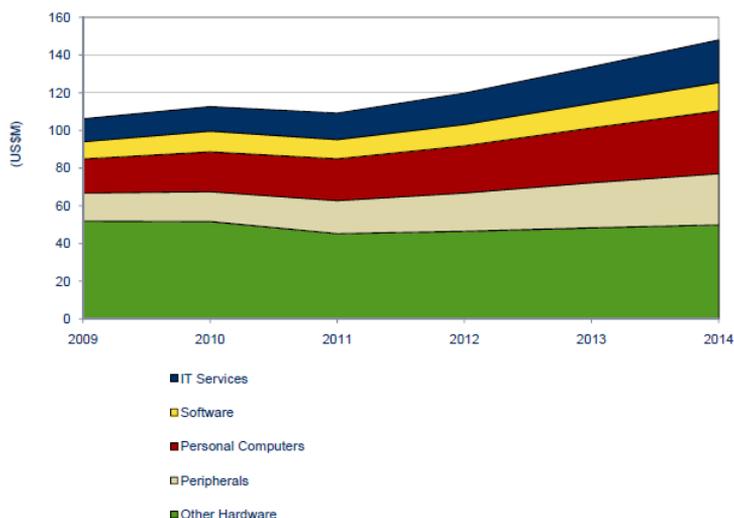


Fig. Structure of IT market in Albania (US)



7. Conclusion

- The level of FDI in Albania remains on low rates, even though from 1999 it has been drastically grown in projects and flowing fluxes from investments.

- The main causes for these low rates of investments are: the most important is the image of Albania into the international arena, this acquired from the political instability, economical one, perceptual risk, the slowing process of the denationalization mostly on strategic sectors, lack of responsibility and institutional ability, low application of law, lack of efficiency and low cost of infrastructure, lack of composition in comprehensive strategies of the social and economical development, impotence and overcharge of administrative taxes, etc.

- Low intensity of foreign investors is due to the perception of a high risk connected with the social violence existing before and the political changes in Albania and also due to the lack of stability in Balkan and Kosovo.

- Albania has some potential sectors and very good possibilities for the attraction of IDH, mainly in tourism (sector with much of the perspective also for the reason of favored natural conditions), services, transport, etc.

- Agriculture in Albania has much possibility of development starting from the geographic positioning, its sources, quality and quantity of manpower. The country could become an important exporter of agricultural products with organic basis pointing at European and world trades.

- Albania has no developed an effective strategy for the investment attraction. It is very important to mention here the lack of marketing territory. The territory marketing plays a very important role, especially to create the image of a country, its communication, approaching of investments.

- The territorial promotion and attraction of investment agencies play a very small role according to their original function, this maybe also from the lack of

connection with the investors, or low approach from state authorities, etc.

- Foreign investments must help Albania through chances of food elaboration to ensure foreign trades. The strategy for investment attraction in the agriculture field of Albania must decide the main perfumers and retailers in Europe and USA.

5. Recommendations

- Albania must work to improve the environment where FDI are active, in order to acquire attract on higher and diverse levels.

- Albania must attract FDI for products that the country is considered to have high international advantages at (actual or potential ones). It's important mainly that part of production which identifies the export products, for which the country have made possible a response to the growth of world trade (cotton trousers, shirts and cotton suits, rough tobacco, etc.). Also it must utilize its potential on the field of tourism, agriculture, etc.

- Albania must focus its energies on the service of actual and possible investors. The investor's gratification is the best advertisement for the country and is considered as the most faithful source for other investors. The actual investors can stay longer and could raise their investments.

- It is very important that Albania develops the territory marketing. Several efforts must be made through this marketing to improve its image.

- The government must stimulate such politics to attract investors; it must speed up and finish the program for the return of the land. The land must be registered as soon as possible, mainly the urban land and attractive areas which serve to the trade development. To improve the efficiency of s solution to the disagreement of land and also to raise its administrative efficiency.

- The government must utilize a strategic vision, which would decide for a number of long-term, medium-term and short-term efforts which give priority to the acceleration and finalization of program for the return of the land. To finalize the registration of urban land and trade development areas.

- Main agent which could pay the role of a contact, sustainer and promoter of the territory for the foreign investors are the Territorial development agents.

The amount of FDI in Albania is still going to be small, given that the value of total global outward ICT-related FDI is low to begin with, and that most of it is absorbed by other countries.

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THE IMPORTANCE OF THE COST INFORMATION IN MAKING DECISIONS

Gheorghe Lepădatu*

Abstract

The cost information system plays an important role in every organization within the decision-making process. An important task of management is to ensure the control over operations, processes, activity sectors, and not ultimately on costs. Although in reaching the goals of an organization compete many control systems (production control, quality control and stocks control), the cost information system is important because it monitors the results of the others. The detailed analysis of costs, the calculation of production cost, the loss quantification, the estimating of work efficiency provides a solid basis for the financial control

Keywords: decisions, costs, users, financial

JEL Classification: M41

1. The cost efficiency of the information system

Knowing the costs represents a decisive factor for making decisions or planning future activities. The record and the analysis of data regarding the past activity costs are only one side of the cost accountancy. The managers are also concerned about costs that will arise in the future, their level that stands as basis for supply and production decisions as well as for pricing policies.

A factor that needn't to be neglected is **the efficiency of the cost information system**. So, *if the offered information is not useful for decision support, nor for the control or for the planning, then what is its value?* In order not to reach such situations, the system must meet the following requirements:

- ◆ is it the suitable system for the organization in terms of the manner production of goods and / or to provide services?
- ◆ do the reports, responses to questions, the analysis contain relevant information for the intended purpose?
- ◆ do these outputs appear at regular intervals and small enough to ensure their effectiveness?
- ◆ are these reports, statements, analysis, responses to questions addressed to those people responsible for making decisions?
- ◆ is the information presented relevant, and sufficiently detailed and precise for the aimed purpose?

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After browsing among these requirements it results that *each information system of costs will be unique*, because it will have to correspond to the demands of certain organizations.

In general, the managerial accountancy covers a wider scope and uses, more advanced techniques than the cost calculation. However, a basic requirement for the managerial accountancy is the existence of a solid information system of costs, able to provide basic data.

Beyond these considerations, we should note that both the whole management accounting and the information system of costs are directed towards the providing of information, often with a high degree of detail, in supporting of planning, control, decision foundation, focusing on the product cost, of the activities and functions.

The decision process is an action that occurs at all levels of the organization, covering both short-term perspective and the long term one. The plans are activated by decisions and at a significant number of decisions is needed the contribution of financial analysis or of a quantitative one, as appropriate, in order for the rational conclusions to be reached. Therefore, the practice of the management of accounting is deeply involved in the decision process.

An important part of evaluating alternatives during a decision process is the one related to assessing risk and uncertainty. Uncertainty is always present, as well as its consequences, because the entire decision process refers to the future. *Decisions under uncertainty conditions* are a crucial factor of maximum importance in management. For example, it may happen that, by replacing a “nerve” subset of a machine while manufacturing it with a redesigned unit, the cost of the equipment may slightly.

A good manager must know how to act promptly under conditions of uncertainty, and for this he needs a *decision model*.

Basically, such a model is made of a decision formula support, often based on quantitative techniques. *The decision model includes the following elements:*

- a *selection criterion* (objective function), which is objective that can be quantified. Usually, this objective is represented by the cost reduction;
- a set of *alternative decisions* from which the purpose can be achieve;
- a set of *relevant decisions* that may affect the results. These events, taken together, must be exhaustive (to cover all possible situations), taken individually, they must be disjointed;
 - a *set of probabilities*, of presenting relevant events;
 - a set of *possible results*, which measures, in terms of the objective function, the expected consequences of different possible action combinations and events. Each such result depends on a specific event and on a specific action.

2. The basic rules of making decisions are:

a) The estimated monetary value. How relevant are these *alternative decisions*? The answer is obvious: accounting, which by definition operates with a standard monetary norm, needs an indicator to show whether a decision (or a scenario) could be more advantageous than another one. This indicator is the *estimated monetary value*.

It is calculated as a weighted average of the results (expressed in money) with the probabilities of each of these results. Also, this being a process of mediation, it can be used where the alternatives under consideration generate two or more results, in an objective or subjective manner, and a probability is assigned to the results.

In the foundation of the decision, several steps are followed:

1. choosing the objective: maximizing the profit;
2. identifying the possible actions, namely: a1) using an external services provider; a2) using the owned maintenance and repair department;
3. identifying the relevant events;
4. establishing the probability of achieving the events;
5. identifying the possible results, when a new event occurs. For this a decision chart can be built (just like the one below), or even a decision tree.

b) The maxim rule, also called "the best of the worst possibilities" it is a preventive decision rule, based on the maximization of the lose minimization that may occur.

Observation: it would be better to choose the alternative of the lowest lose level.

c) The maxim rule, also called "the best of the good possibilities" it is an optimistic rule, it increase the maximum fact that can be obtained.

Observation: it would be better to choose the alternative of the biggest profit.

Generalizing the examples, a consultant or an expert may be perceived as an information system. The decision-maker action will depend on the message or on the signal (in our case the best estimation of the number of interventions) provided by the system. But the decision maker factor acquires the system without knowing the future signals.

We shouldn't consider everything as absolute: in practice managers never confront a single decision, and the information system provides a wide range of information. Therefore, cost-benefit approach should be focused on the collective effect of decisions in a company. For example, a complex and expensive information system for accounting can provide sufficient data and even functionalities to prepare budgets.

In simpler situations (let's say the establishment for the supplies), a cheap application implemented on a microcomputer or even a model designed by the user in a typical development environment may provide enough data to base their decisions in terms of economic efficiency.

In conclusion, the choice of an information system depends on the nature of the decision. More precisely, it depends on the existing information, the table or the decision tree implemented, on the cost of information system and on the optimum condition monitored by the one who makes the decision.

Andrew Carnegie (1872-1902), the founder of the giant American steelworks "Carnegie Steel Company", believes that managers must focus their efforts on the cost because *if they controlled the costs, the profits would appear by themselves.*

The cost information is articulated with the managerial accounting by an integrated part of it. In essence, the role of cost information system is "the

establishment of budgets, standard costs and actual costs of operations, processes, activities or products and of employees' analysis, profitability or operating funds."

Although original (now more than a century) the cost calculation only included productive activities, today it has expanded also on unproductive activities, such as finance and banking, government agencies, health care institutions, etc.

The cost information system is a "primary stone" of the financial accounting information system in an organization. Some information and their possible use by management of the organization are presented in the table below:

The possibility of using the type of cost information by the management

The information provided by the cost information system	Possible uses of such information by the management
I. The unit cost of a product, work or service	<ul style="list-style-type: none"> ◆ Decisions on determining the selling price, the production planning and the cost control ◆ Decisions regarding the purchase, the manufacture or the abandonment of a product ◆ Decisions regarding the portfolio administration of products (substitutions, redesign and product elimination) ◆ The evaluation, measurement and performance administration
II. The cost of a department or a factory	<ul style="list-style-type: none"> ◆ Decisions regarding the structure, improving the production process and the activity control
III. The wage expenses regarding a product lot or a period	<ul style="list-style-type: none"> ◆ The planification of the production, the salary policy
IV. The volume of waste and the technological loses	<ul style="list-style-type: none"> ◆ The planification of the production, the control over materials
V. The costs related to the number of activities	<ul style="list-style-type: none"> ◆ The estimation of profit, decisions of "make-or-buy" type (externalization) and the cost control ◆ Decisions regarding the ways for the company's growth
VI. The cost analysis	<ul style="list-style-type: none"> ◆ Decisions regarding the reduction of cost ◆ Decisions regarding the management of the products and of the customers, (maintenance, elimination) ◆ Decisions regarding the ways growth of the company's performance ◆ The evaluation of effects, of the measures taken / expected by the manager upon costs

Making decisions is a difficult task; the costs are a fundamental factor of the decision. For this are calculated and used several categories of costs. Therefore, **in order to make a decision, four information are always important on the costs**, namely:

What costs are influenced by the decision needed to be taken?

When making a decision not only costs that change should be considered depending on the approach taken on its time. Not all costs are basis for making decisions, but only the relevant ones. A cost is *relevant* if it is developed at the right time for the right decider with an appropriate and satisfactory precision for it. So the relevant cost also called the expected cost is the *additional* cost entailed by the decision. A cost that is represented in an alternative (solution), but misses from the others is a differential cost. The differential method is essential in the decision and can be used for both short-term decision and long term ones.

The costs that can be avoided, influenced, are relevant to the decision. An *avoidable* cost is what can be eliminated entirely or partially as a result of an alternative choice of several, during the development of decision.

But there are also unavoidable costs, called also irrelevant or indifferent costs that do not differ from one alternative to another. They are the past costs, historical ones, on which we cannot make any future decisions.

In the literature it has been and currently are concerns towards the use of appropriate terminology in the relevant costs.

These costs can be determined by making references to: the costs calculated in the previous reporting period, the same costs up to date, competitive rates, costs calculated from a technical and economic analysis, the same costs calculated in connection with an operating budget and resulting from it.

3. The influence power of the manager on costs is determined by the possibility of knowledge the field of cost application, as well as identifying the costs that it can control or not.

From this point of view the following types of costs can be distinguished:

■ **The reversible cost and irreversible cost.** A cost is irreversible when he can no longer return to his employment decision, whatever solution is adopted. Otherwise it will therefore be reversible. So, the decision to install a machine, is irreversible, its decision of working overtime hours is reversible

The controlled cost and the administrated one. A cost is controllable when the decision maker has full power on the occurrence of this cost (e.g., hiring an employee). The cost is administered when the decision maker is required from outside the company (e.g. social spending, tax, royalties). The costs increase mainly on the account of wage costs.

■ **Determined costs and discretionary costs.** One cost is determined when there is a clear relationship between it and the effect produced (e.g., consumption of raw materials that is related to the production).

One cost is discretionary when its relationship with outcome is more "discreet", that will be hard to find a correlation between the administrative burden and consumption of office supplies. Unlike the determined costs, called *mandatory costs* (due to the contractual obligations, company's policy, etc.) the discretionary cost volume can be changed easily (advertising, sponsorship volume);

■ **visible costs and hidden costs.** A hidden cost is already generated (being a passed cost) and it cannot be avoided, whatever the manager decides which action to perform.

One cost is visible when the decision-maker can know the volume of actual costs that have been included in it;

■ **internal and external costs.** The external costs (outsourced) are costs that are transferred to third parties - for example, environmental costs have a social character, are not covered (fully) by the pollutant agent.

Their opposites are the internal costs, consisting of all production costs related to the company's activities.

From this brief overview upon costs results that authority of the decision-maker is limited to all internal costs, manageable ones. It will be strongly visible on costs, reversible and determined. On the other hand, the decision-maker influences only very little on administration costs and outsourcing.

4. The management and the costs

The **opportunity cost** or of **choice** is the appreciation that an economic entity offers to the opportunities forgone when making the choice. It is the loss resulting from waivers involved in any option. The managers try harder and harder to integrate the opportunity costs in the economic analysis of management problems, there are mostly *social opportunity costs*, such as a conflict or social climate degradation, as sources of loss. The opportunity cost is achieved, more as a waste of resources, rather than a proper cost.

Within the identification of the avoidable costs (differential), specific to a decision that needs to be made, the manager follows the next steps:

- association of total costs with each alternative ones (differential)
- the elimination of the attached costs;
- the elimination of the costs that do not differ between alternatives;
- the development of the decision based on the remaining costs.

These are avoidable or differential costs.

We consider that understanding the behavior of costs, of *the marginal contribution* (amount equal to the difference between turnover and marginal cost) and of marginal calculation principles, generally represent a challenge for any manager who wants a meaningful decision. The marginal cost arose from the need to explain the reaction of costs in relation to the changes of physical volume of production and prices, also known as the "*additional cost*" or "*differential cost*". Especially in a competitive environment, *for making a decision is considered the relevant marginal cost.*

What is given up to if a solution is chosen instead of another (deciding meaning giving up)?

Making a decision involves choosing a solution to the detriment of another. Professor Henri Bouquin says that "every decision is a sacrifice, and every sacrifice is

an opportunity cost. The opportunity cost is, therefore the sacrifice in real terms that is faced by an economic agent that makes a choice between several possible actions”.

How will behave the costs involving the options considered after making the decision? What is the logic, what laws will they follow?

For choosing, a solution of the cost behavior in each case must be tested. Knowing the cost behavior in all its theoretical and practical complexity is a tool to reach the managers and is used to increase the economic entity's performance.

The term of costs behavior refers to the level of costs within the costs from an economic entity respond to a change of activity that takes place in an entity. An understanding of the behavior of cost structures and ability to provide cost behavior in a given situation is essential for planning, making decisions and control activities requiring an understanding of the relationship of input – output.

We may say that an increase of the physical increase of the production also determines an increase of the total cost. At a decrease, however, production volume to a certain extent, lower to a lesser extent level than where they increase production volume that has increased in that proportion. It is very important, therefore to make a classification of the costs into variable and fixed ones.

The variable costs allow the calculation of a *margin over the variable cost*, on each product, by lowering the variable cost from the company's. The size of the variable cost margin is a valuable piece of information that a manager can use as a decision support to offer or not different products, namely to increase sales to the cost on the most profitable ones and to lower the costs on the non-profitable ones.

Other developments of this classification divided the costs into: *variable costs*, *specific fixed costs* (direct) and *common fixed costs* (indirect). This will allow the determination of both *the variable cost margins* and *margins specific costs*.

The margins referred to “specific costs” indicate to what extent the products/services contribute to the common fixed costs. Therefore, it is assured by this calculation, a more relevant analysis of the profitability of different products and avoiding wrong decisions that could be take on the complete costs.

How can we interfere upon costs?

The opportunity to influence upon one cost means to influence on the causes operating the process (activities) consumed in its organization, which meet the needs of the organization and the capacity costs that it involves. In the future we would not be able to make changes upon previously decided costs (on the irreversible ones). Expanding the volume on irreversible costs reduces the range of the decision-maker. For this, costs must be identified before they can become real, since the decision that will activate them. Thus, it was observed that in certain productive sectors, *the moment of influencing costs is the one of the product designing*. Once activated the production process, *costs will be incurred* (costs determined by previous decision), without being able to act on them. These costs may be affected only by changes in the company policies.

As a result, all these considerations have resulted in costing methods such as: Target Costing and Kaizen Costing.

The cost type information should be considered tools for creating value at a lower cost. Also, this approach shows the *cost information system capacity to provide relevant information* to serve several purposes, namely:

- *their usage in financial accounts* (purchase cost, cost of production or processing of inventory, the full cost, cost of sales and cost of the period);
- *their usage in making decisions* (opportunity cost, relevant costs, irreversible cost);
- *their assessment (measurement) and performance management* (hidden costs, controllable costs, outsourcing costs).

Most of these costs affect the quality of sold products, the company's image and therefore its performance. As a result, they are particularly important for managers in making decisions.

5. The costs relevance

One of the main goals of management accounting is the calculation of costs. However, some authors, especially those in the Anglo-Saxon field, see the *cost accounting* as part of managerial accounting (logical, because the cost primarily interested in business management). In that light, cost accounting results in an interface between financial accounting and management accounting. At the microeconomic level, the company's primary objective is represented by the minimized costs and the maximized profits. As a result, the periodic comparison of actual costs with those provided will allow deviations from the budget analysis and corrective decisions. In this context, controlling costs becomes a matter of utmost importance and other factors responsible for managing a company. Accounting management as a tool of management control is an information system. Yet such a system for processing results, to be effective, must meet the objectives and needs expressed by its users. Therefore, the information system of costs will provide the deciders "the best cost", the most appropriate for the management problems that need to be solved.

The best cost for a firm is not necessarily the lowest, but the one that occurs at the appropriate time and place and that which provides the user the desired accuracy.

At this subjective, juncture we can talk about *the relevance of costs*, which varies from one company to another, determining the choice of the optimal method of calculation. The relevant costs relate to future costs on which we may act and can be used in making decisions.

In specialized literature, the relevance of cost is considered taking into account *four criteria* of assessment, namely:

- × *The evolution of prices and salaries;*
- × *The level of activity of the company;*
- × *The exploitation efficiency;*
- × *The identification of responsibilities.*

The relevance of different types of costs

No	Assessment criteria	Calculation Methods			
		Complete costs	Variable costs	Specific costs	Rational imputation
0	1	2	3	4	5
1.	The evolution of process and salaries	All methods are able to give the necessary elements. The problem lies not in choosing the method of calculation, but in establishing a sufficient analytical framework (detailed cost elements, the choice of activity centers).			
2.	The level of activity of the company	Inappropriate methods because it does not make the difference between fix expenses and variable ones.	Operated the difference between fix expenses and variable ones, but it is not visible the influence of under-activity (or in some cases of an over activity).		The method suits perfectly under this aspect.
3.	Exploitation efficiency	The specifications from the first criterion are available.			
4.	Identifying the responsibilities	Because all the expenses could be found in one place, it is difficult to influence one of them. The general expenses are divided at random over the main centers of activity; the responsibility suffers some kind of dilution.	Only the variable expenses are kept, that are easily identified and controlled. It is even the case of auxiliary expenses, for which a logic division criterion could be found.	The mentions from the method of variable costs are available. Even more, in this case the fixed expenses are often influenced by the responsible.	The method allows all types of analysis. The variations of the activity level influence the level of variable expenses, that can be measured with accuracy. The fixed expenses are included in costs, only then when they correspond to the real activities of the main centers.

The concept of "relevance" is different from that of "accuracy" of the cost. The accuracy refers to the validity of arithmetic calculations that allowed the determination of costs. The "accuracy" is, however, a cost. The degree of accuracy of calculations can sometimes be obtained only with the "price" of certain prohibitive costs to access the information, in relation to the profit made by precision calculations. In this context, it is best to determine an estimative cost at the right time than a strict exact cost, but a late one.

6. The marginal cost and the management

Using the marginal cost in the accounting management allows the study of variations of all types of expenses, depending on the fluctuations in activity, for assessing the impact to the overall outcome. The marginal cost is not a method itself. Using this tool allows answers to some management problems such as:

In economics, the term of "incremental costs" was the significance of the maximum allowable costs for certain goods with the lowest efficiency of the production factors.

- ◆ at what price can be accepted an additional order? and if so,
- ◆ how to maximize the outcome in this case?

The marginal cost concept was originally defined in the classical microeconomic theory. Later marginal costing theory and extended to the entire industry and have been applied in reality the economic entity, of course, in a modified sense.

Knowing the nature of production costs and how to change the total and per unit costs of each product, according to the modification of the physical volume of production is essential, both in the decision making process and in the management control.

Before the definition of marginal cost, it is important to note that an economic entity does not change the production volume for a single unit, but for larger groups or series of products.

The consumer needs are greater now because more units produced are made. So the marginal cost arose from the need to explain the response costs in relation to changes of physical volume of production and prices, it is also known as the "additional cost" or "differential cost".

The marginal cost is defined in the literature as "the difference between overall manufacturing costs required for production data and the amount of expenditure required for the same volume of production, plus or minus one unit"². Therefore, when production volume is increasing, we may talk of a "**marginal cost of development**" and regarding the reducing production volume, of a "**marginal cost regression**".

Being the cost the last produced unit, namely the cost of additional production, **the marginal cost (C_{ma})** will represent the difference between the total cost for **n+1** produced unit (**C_{n+1}**) and the total cost for **n** units of goods (**C_n**), which could be expressed by the relationship:

$$C_{ma} = C_{n+1} - C_n$$

² Budugan, I.; Georgescu, I.; Berheci, I.; Bețianu, L., Management Accountancy, CECCAR Publishing House, Bucharest, 2007, pages. 412.

By dividing the marginal cost of the series to the number of units of the precise unit, **the unitary marginal cost** can be determined by the relation:

$$C_{\text{man}} = \frac{C_{n+1} - C_n}{Q_{n+1} - Q_n}$$

The cost of the last produced unit includes, just like all costs, expenses of different nature, namely:

- variable costs required for its production;
- fixed costs, if the new series determines an enhancement of the existing production capacity.

The comparison of the marginal cost to the average cost total or unitary) can be made either by arithmetic or a graphic method.

7. Hidden costs of the company

Knowing the cost is a decisive factor for making decisions or planning future activities.

Analysis and recording of data on costs of past is only one side of cost accounting. Managers are also concerned about costs that will arise in the future, their standing on the basis of supply and production decisions and pricing policies.

In order to have a better activity and to obtain optimal results, the changing strategies used by a company must rely on the human potential and to be part of an economic evaluation. In addition to positive results, the company may record and loss of energy, human and material resources, these also **the hidden costs**. An effective management can only be achieved by reconciling the economic and social dimension of the company through **the cost method - hidden performance**³.

Hidden costs and very little or no identified at all by the classical information system, being determined by known as visible cases, although their size is "invisible" because it is included in other costs.

The actual size of a hidden cost can never be isolated. If a *visible cost* can be called, measured and therefore followed, a *hidden cost* has none of these features. However, identifying and monitoring these costs is very important because they have a direct impact on the performance of the company⁴. By nature of their activities, the companies accumulate failures, excessive operating expenses, poor productivity, and etc. namely hidden costs.

³ **The costs-performances method** was proposed in 1973 by **Henri Savall** and then **developed within ISEOR** (he economic-social institute of companies and organizations) by several practical experiences and by those over 100 PhD thesis, prepared within this institute.

⁴ Albu, N.; Albu, C., *Instruments of managing the performance*, Vol. I, Management Accounting, Economical Publishing House, Bucharest, 2003, pages. 228. The cost method - hidden performance was proposed in 1973 by Henri Savall and then developed in ISEOR (Institute of economic and social enterprises and organizations) in many practical experiences and parents over 100 doctoral dissertations prepared at this institute.

After **H. Savall and V. Zardet**, the *dysfunctions* generated by anomalies, disturbances or deviations between the functionality required by the company and t constant one, are five, namely: *absenteeism, labor accidents, staff rotations, quality faults and the reduce of direct productivity*.

All this occurs in six areas of organizational fields: **working conditions, work organizing, time management, communication - coordination - the objectives, integrated training and strategic organization**.

These six areas of functioning are both explanatory variables and sources of firm resolve to diagnosed disorders.

Failures have significant financial results, called hidden costs. However, any company does firm not evaluate, for example, the total costs due to absenteeism. In this case, the company's manager would need to consider, in addition to wages paid to absent, and those due to their prospective substitutes, the lost work products due to their lack of experience and the late fulfillment of the tasks undertaken by them.

Hidden costs are the translation of monetary adjustment activities and for their evaluation are identified **five components**, namely:

✓ *Component 1 - over salaries* - generated by the absenteeism that will cause deviations of salaries when the activity will be conducted by a single person with a higher salary than the replaced person, or by an additional staff;

✓ *Component 2 - overtimes* - corresponding to regulate activities (training a replacement, telephone calls etc.;

✓ *Component 3 - overconsumption* - generated by the quantities produced and consumed from own production and valued at their actual cost incurred by the company;

✓ *Component 4 - non – production* - namely the under activity generated by the failure of the equipment, labor accidents etc.;

✓ *Component 5 - non - potential creation* - caused by the lack of orientation of investments, because those involved were in regulating the dysfunctions and had no time to certain long-term activities.

The optics for seeing the **evaluation model of hidden costs** can be followed in the table below:

Components Indicators	Oversalaries (1)	Overtimes (2)	Overconsumption (3)	Non-production (4)	Non-potential creation (5)	Total hidden costs (1+2+3+4+5)	Risks
Absenteeism						Hidden costs regarding absenteeism	
Labor accidents						Hidden costs regarding labor accidents	
Staff rotation						Hidden costs regarding the staff rotation	

Components Indicators	Oversalaries (1)	Overtimes (2)	Overconsumption (3)	Non-production (4)	Non-potential creation (5)	Total hidden costs (1+2+3+4+5)	Risks
Quality faults						Hidden costs regarding the quality of products	
The reduce of direct productivity						Hidden costs regarding productivity faults	
TOTAL	Over salaries generated by the 5 indicators	Overtimes generated by the 5 indicators	Overconsumption generated by the 5 indicators	Non-production generated by the 5 indicators	Non-creation of potential generated by the 5 indicators	Total of hidden costs	Risks generate by the 5 indicators
Economic concepts	Historical concepts			Opportunity costs			
Accountancy concepts	Over-expenses			Non-products			

The general model for calculating the hidden costs

We can notice that *each of the five indicators is associated with five components hidden costs, actually incurred by the company's corresponding regularizations*. Also, *the model contains not only the quantity dysfunction (ex. number of errors), but its regularization cost, namely the cost of retouching*.

The basic idea is a simple model: establishing a link between: on the one hand, the costs - hidden and performance, on the other hand, costs - visible performance identified by the company through its results.

Through the obtained results, the hidden costs are very important for the companies and therefore there are, now solutions for minimizing them. Therefore, companies must implement a socio-economic interference and to seek the causes of dysfunction. The staff has an important role in reducing hidden costs; development of human potential represents a strategic task for the company. All the company's employees are potential generators of hidden costs as all may cause failure. Employees must be aware that their failures, and their regulation consume resources and energy and therefore the prevention and control are important.

The human regulate activities, expressed in terms of time, money assessing the contribution margin hourly variable costs, resulting overtimes that corresponding to certain regularization activities (e.g., training a replacement), non-production due to accidents, staple stocks, over salaries etc.

The evaluation of hidden costs is an extra-accountancy procedure because it is not part of any analysis of accounts, of expenditure and revenue. It is based on very precise determination of dysfunctions and their consequences, as the inside by those concerned. As a result, the manager of a company decides to gather additional information (due to malfunction) will induce additional costs incorporated into the company's expenses (Class 6 – "Expenditure Accounts"). They may also be affected all

the revenue accounts (Class 7 – “Revenue Accounts”), because **non-incomes** are assessed: the total of such costs is reduced by the existence of non-revenue that diminishes the income.

With all the advantages of related to the calculation of a performance hidden cost more "flexible", the method of hidden-performance is difficult in every day practice. The difficulties lie in the very precise determination of dysfunctions and their consequences, so, in fact, the method retains a great deal of arbitrariness. Therefore, few companies get to use it in practice.

8. As a conclusion, *the hidden cost – efficient method, also called the socio-economic method, tries to reconcile economic and social dimension of the company, seeking a more efficient management. The concept of efficient-costs allows the company to discover greater internal resources, without social performance decline and without additional external funding sources.*

The hidden costs management approach should be included in the short-term administration of the company (indicators in the board of control in order to quickly seize significant effects. Even today this area has obvious small inertia, but the improvement of the hidden cost-performance method represents a constant challenge for the accounting management.

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ROMANIAN CLOTHING INDUSTRY: EXTERNAL MARKET VS. INTERNAL MARKET

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Abstract

In this paper we emphasize the particularities of the clothing industry market, which requested certain processing of data from the Statistics National Institute, the Economy and Commerce Ministry and the Commerce International Organization.

To this end, it was noticed that the products of the clothing industry are mainly for export. Approximately 85% of the clothing products of our country are exported Romania's clothing export being directed mainly to the European community's countries. The data presented in the paper note the decrease of total exports of the clothing industry in our country, as well as those in the European Union during this last period, which indicates a similar evolution of the Romanian specialized sector on its traditional consumption market. The export performances of the companies in the Romanian clothing industry registered a descending course during the last years, in disagreement, in our opinion, to their productive and commercial potential.

In regards to the products intended by the local clothing companies for the internal market, it was noticed that they are characterized by a low sophistication degree, being extremely different in terms of price, quality and distribution circuit as compared to the products sold on international markets. The poor competitive nature of the internal market clothing companies is due both to the ineffective sales and marketing activities, as well as to the decreased financial force of the population. The remarkable and insufficiently exploited potential of the internal market was observed, while the clothing industry producers in Romania should consider its capitalization at the highest level on top of their interest. Though, this remains an extremely difficult process, considering the modest financial force of the population, combined with the aggressive penetration of the foreign products on the internal market.

Keywords: clothing, fast fashion, clothing exports, internal market

JEL Classification: L11, L16

1. "The tailor of Europe"

The clothing industry is a representative sector, especially for less developed economies, for which the use of active trade policies, oriented to intensive stimulation of exports as "locomotive" of economic growth represents a coordinate of economic development. This is the case of Romania, where the clothing sector plays an important role in the manufacturing sector and accounts for the major share of country's exports

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Clothing industry is one of the few industrial sectors (with leather and footwear, furniture and raw timber) where our country's export specialization index is greater than 1 (Voinea, 2005, p.5). As statistics show, if until 1989 Romanian garments were made mainly for domestic consumption, nowadays these products are exported (Table 1).

Table 1 – *The destination of Romanian clothing industry's products*

Specification	M.U.	1989	2004	2005	2006	2007	2008
Achieved output	mil. euro	-	4762	3913	4374	3434	3316
Achieved output	mil. U.S. dollars	1643	6308	4615	5755	5061	4278
Exported output	mil. U.S. dollars	649	4661	4569	4350	4237	4010
Output for domestic consumption	mil. U.S. dollars	994	1647	46	1405	824	268
Share of exported output into achieved output	%	39	73,89	99,01	75,59	83,72	93,74
Share of output for domestic consumption into achieved output	%	61	26,11	0,99	24,41	16,28	6,26

(Source: author's calculations based on data from National Institute of Statistics, the Ministry of Economy and Trade and World Trade Organization)

Note: conversion from euro into U.S. dollars was made using at the official rate InforEuro

As the international trade in garments is concerned, our country has concentrated its efforts to maintain, strengthen and develop economic relations with over 150 countries and in particular with the European Union countries which are major trading partners and, at the same time, traditional ones. Romania's exports of clothing heavily target the EU countries (over 97% of exports in the period 2004-2008), the tight commercial relations between Romania and the European Union being favored by: the significant dimension of the community market, the reputation of the Romanian products on this market, the relatively low transport costs, as well as the complementary nature of our products compared to the similar industries within the European Union under the price/quality ratio, according to their destination (Popescu, 2004, p.67).

On the EU market, the competitive pressure is acting from two directions:

- the group of developed countries, that abandoned the industry of consumer goods on the production of luxury goods in short series, dominating the international fashion and holding high-tech and performance machinery;
- the group of developing countries, the main owners of raw materials, with skilled low cost labor and favorable industrial policies that promote exports and conquest of new markets - the case of some countries in Central and South Asia - East.

All member countries of the European Union are producing ready-made clothes, sector being better represented in Italy, Germany, France and England. Garment industries of developed countries are addressed, through their specific

products (pants and men's shirts, skirts, pants and women's blouses, knitted jerseys and knits) to a saturated market, highly competitive, characterized by a low coefficient of elasticity of the demand for income. Another peculiarity of this market refers to the fact that demand is unstable and it changes rapidly, under the influence of fashion or alterations of seasons. It is also noted that the share of clothing expenditure in household budgets is declining.

2. The fast fashion phenomenon and other features of EU clothing market

As a recent study reveals (Masson, Iosif, MacKerron, Fernie, 2007, p. 238) a feature of the European apparel market refers to "democratization" of fashion and intensification of the phenomenon of fast fashion. The models presented on the catwalk at fashion festivals are available in stores, usually within a few weeks. The study cited mentions the tendency of dealers to facilitate consumer access to clothes with a high content of fashion, offered in various sizes. In early 2000, the Swedish company H & M hired dozens of young designers whose job was to produce as quickly and as cheap as possible "high fashion" clothes, the products of H&M at that time being called also "disposable fashion", "trendy" clothes that you can throw in the trash after the passing of the fashion. For H&M success did not come right away, but it was not a losing business. Instead, the first large luxury market drop after the attacks of September 11, 2001, demonstrated the full potential of the fast fashion concept, as the "disposable fashion" clothes were requested by consumers.

Years 2004-2005 have imposed fashionable "boho-chic" -bohemian/hippie/chic, promoted by celebrities like Lindsay Lohan, Sienna Miller, Jude Law or Olsen twins. Increasingly, many fashion houses have turned spontaneously to the young rich, creating a wave of demand. This was the moment in which the term of fast fashion was required and was strengthened: everyone wanted to dress like boho celebrities, but fashion was changing ever more quickly. There was even the expression "today fashion" or "what shall we wear today". Between 2004 and 2005 there was a major change of consumer habits, former weekend shoppers reaching out to carols shops day by day.

The first reaction came from Top Shop network in the UK, but the company Inditex, owner of the mark Zara, was the one who took over and perfected the H & M recipe, by employing a core of 200 young designers, creating no less than 40,000 models of clothes per year. Of these, only 10,000 arriving in stores, i.e. 30 new models per day, every day of the year. Parts of „scrap” are sold to mass producers, the rest being discarded. All 650 Zara branches in the world are interconnected by means of an electronic system, so that the success or failure of a model is found instantly. Once a model sale begins to fall, it is withdrawn. When sales grow, production is supplemented on the spot. Zara has gotten so to have a percentage of returns only 10% of production compared to the industry average of 17-20%. Time between presentation of a "designer" model on any catwalk of the world scene and the emergence of a homologous product on the market in fast fashion is of 12-15 days. Basically, the remote corners of the world get lower rank clothes first, then new

collections of major fashion houses, while Zara came to spend on advertising only 0.3% of revenue, compared with an average 3-4% of industry.

Statistical documents and thematic reports from the European Commission highlight several features of the clothing sector in the European Union, the most significant being in the list below:

- a) a long tradition, innovation and product diversity;
- b) concentrating on products with high added value, quality, design, innovation and technology, EU being the leader of the world market segment clothing with a high level of quality and fashion;
- c) high degree of regional concentration of production, which is located, especially in the Southern Area Community (Italy, Spain, Portugal);
- d) is dominated by SMEs, which are mostly the type of family associations and have an average of 20 employees;
- e) in order to cope with increased competition, has accelerated the process of structural adjustment of Community industry of textile and clothing products, by applying new information technologies and new products which has benefited from the overall Structural Funds of the EU, but also by improving the activity of subcontracting. The structural adjustment process, however, was accompanied by stagnation and even decline in production and loss of many jobs;
- f) EU textile and clothing industry widely uses CMT, the labor intensive activities being transferred to East Europe and North African countries.

Among developing countries possessing raw materials and cheap skilled labor detaches China, the world leader in production and export of textiles and clothing. In 2008 China's exports of apparel revenues were 119,790 billion dollars, 4.1% higher than those recorded in 2007. In recent years, the competitiveness of China's garment export industry has been affected by increased labor costs and rising raw material prices in the financial crisis that has caused the decline in demand on its main consumer markets (EU, USA and Japan), exerting enormous pressure on export prices. Recent studies estimate a 10% reduction in Chinese exports of clothing in 2009 compared with 2008. However, it is difficult to assume that China will lose its leading position in textile and clothing production and trade, especially in the context of systematic interventions by the Chinese government, resulting primarily in the adoption, in February 2009, of the Revitalization and Adjustment Plan for Textile Industry and oriented towards supporting exports, create jobs, increase farmers' income and promote urban development. The practical measures proposed in the plan, currently under implementation, aims to modernize production capacity and providing support for making acquisitions and mergers designed to accelerate the revitalization of the textile industry.

Returning to the situation in Romania, the data presented in Table 2 show a decline of 14% in total exports recorded in the clothing industry of our country and those oriented towards European Union in 2008 compared with 2004. It is also noted that during the period under review, commercial relations between Romania and its traditional partners - France and Germany - were greatly restricted, as exports decreased by 13% and, respectively, 36%, indicating a similar evolution of the Romanian garment sector position on its traditional consumer market.

Table 2 – Garment exports from Romania to the European Union in 2004-2008
- geographical distribution by country

Importer	Value (thousand U.S. dollars)					Evolution 2008/2004 (%)
	2004	2005	2006	2007	2008	
Italy	1554160	1557072	1526214	1527350	1605519	+ 3,30
France	1141693	1131660	1028208	1038014	995456	-12,81
Germany	850903	739368	729378	688016	539199	-36,63
England	332516	349784	354419	348899	340288	+ 2,34
Austria	178948	160342	125098	82277	94323	-47,29
Netherlands	71779	80245	72382	64696	63647	-11,33
Greece	50871	48462	49167	59731	50819	-0,10
Hungary	153712	166393	157274	157826	43839	-71,48
Belgium	95389	94126	84978	35569	40106	-57,96
Slovakia	18440	31018	33977	29152	36828	+ 99,72
Spain	44945	42740	45412	42730	31740	-29,38
Bulgaria	8223	7405	9719	16939	22083	+168,55
Ireland	11110	15789	14053	15222	16250	+ 46,26
Czech Republic	1456	3864	5636	6333	9249	+ 535,23
Estonia	7807	7822	7546	8629	8660	+ 10,93
Sweden	5289	3007	2904	3667	3785	-28,44
Portugal	1110	1431	725	1302	3580	+ 222,52
Poland	899	1322	934	2202	3183	+ 254,06
Denmark	4223	3837	1373	3379	2152	-49,04
Lithuania	2328	4663	3282	2779	1358	-41,67
Finland	1112	454	162	2113	1185	+ 6,56
Slovenia	819	2696	1143	2954	544	-33,58
Cyprus	71	88	111	117	341	+ 380,28
Malta	2871	2681	2430	1654	231	-91,95
Latvia	166	371	230	2071	124	-25,30
Luxembourg	273	86	136	141	46	-83,15
Total exports	4660752	4568605	4350162	4237980	4010773	-13,95
Exports towards UE countries	4541113	4456726	4256891	4143762	3914535	-13,80

(Source: author's calculations based on data from World Trade Organization)

Statistical data show a decline of Romania's ranking among EU clothing suppliers, our country being overtaken by Bangladesh and India (Table 3), but remaining the largest Central and Eastern Europe provider of clothing for European Union countries.

Table 3 – Main EU clothing suppliers

Rank	2003	2004	2005	2006	2007
1	China	China	China	China	China
2	Turkey	Turkey	Turkey	Turkey	Turkey
3	Italy	Italy	Italy	Italy	Italy
4	Germany	Germany	Germany	Bangladesh	Germany
5	ROMANIA	Bangladesh	Bangladesh	Germany	Bangladesh
6	Bangladesh	ROMANIA	ROMANIA	India	India
7	France	France	India	France	France
8	Tunis	India	France	ROMANIA	ROMANIA
9	Morocco	Tunis	Tunis	Hong Kong	Tunis
10	India	Morocco	Morocco	Tunis	Morocco
11	Hong Kong	Hong Kong	Belgium	Morocco	Spain
12	Portugal	Portugal	Hong Kong	Spain	Netherlands
13	Netherlands	Belgium	Portugal	Netherlands	Portugal
14	Belgium	Netherlands	Netherlands	Belgium	Hong Kong
15	Spain	Spain	Spain	Portugal	Belgium
16	England	England	England	England	England
17	Indonesia	Indonesia	Indonesia	Indonesia	Indonesia
18	Greece	Thailand	Thailand	Sri Lanka	Sri Lanka
19	Thailand	Greece	Sri Lanka	Thailand	Thailand
20	Sri Lanka	Sri Lanka	Greece	Greece	Greece

(Source: author's calculations based on data from World Trade Organization)

The export performances of the companies in the Romanian clothing industry registered a descending course during the last years, in disagreement, in our opinion, to their productive and commercial potential. For the near future and even on medium-and long-term changes expected in textiles and clothing industries will bring, it seems, several risks and challenges rather than opportunities, particularly for smaller exporters from developing countries. In this fierce competition will gain considerable success, will thrive and will develop steadily companies with:

- performance management;
- top technical potential;
- specific raw materials;
- highly skilled workforce prepared to work in the industry, as earnings are lower than in other industries;
- an active trade policy, intensively stimulating exports as a "locomotive" of economic growth.

3. What about internal market?

According to data presented in Table 1 share of clothing production for domestic market from 2004 to 2008 vary between 0.99% and 26.11%, the lowest value being recorded for 2005 - the year of global textile trade liberalization and clothing, when the Romanian market was invaded by Asian origin clothing.

A study conducted in 2006 by World Bank experts' reveals that products of domestic clothing companies made for internal market are characterized by a low degree of sophistication and, also, are very different in terms of price, quality and distribution circuit compared to those of products sold on international markets.

Weak competitiveness of Romanian clothing industry on the domestic market is reflected into its insignificant market share, with a downward trend in the period 2004-2008, while the total sales of clothing increased by 95% in the horizon of analysis (Table 3.). We must emphasize that production for domestic market, expressed in value terms, fell below second-hand imports in 2005 and 2008 - when taking into account the fact that second hand clothes imported regularly by pound are extremely low priced - we can estimate a quantitative difference of several ten times higher.

Table 4 – Domestic market share of Romanian clothing producers

Specification	M.U.	2004	2005	2006	2007	2008
Total sales (internal market), including:	thou. U.S. dollars	591933	650980	680341	907622	1159838
- imports	thou. U.S. dollars	590057	650727	678741	906485	1159229
- domestic output	thou. U.S. dollars	1647	46	1405	824	268
- „second hand” imports	mil. U.S. dollars	229	207	195	313	341
Domestic market share of Romanian clothing producers	%	0,27	0,007	0,20	0,09	0,02

(Source: author's calculations based on data from the Ministry of Economy and Trade and World Trade Organization)

The poor competitive nature of the internal market clothing companies is due both to the ineffective sales and marketing activities (according to FEPAIUS, there are only 500 romanian brands, sector being composed of over 6,000 enterprises) as well as to the decreased financial force of the population.

The National Institute of Statistics and Eurostat data highlights the fact that expenditure for purchasing clothing and footwear represents 4% of total consumption expenditure of Romanian household - an amount equivalent to the European average, but the population's purchasing power is reduced, so that, in 2006, according to a study by Euromonitor, the total expenditure on clothing per capita were only 76 euros in Romania, 16 times lower than those of Greece (1225 euro) and Italy (1224 euro).

In the last two years financial and economic crisis caused a decline of private consumption, as clothing costs per family decreased. According to the National Institute of statistics data, the largest decreases were recorded in the Western region (Timiș County, Arad County, Hunedoara County, Caraș-Severin County), where expenditure on clothing declined from 67.3 lei to 35,5 lei per family, a significant decline, from 73 to 42,3 lei being recorded also in the region of Bucuresti - Ilfov.

Thus, Romanian producers must face a fierce competition in which the price and not the quality prevail in the choice of buyer. According to the World Trade Organization, in the period 2005-2008 Romania imported apparel from various countries, presented in Table 5:

Table 5- *Clothing imports, in mil. U.S. dollars, by country of origin, in the period 2005-2008*

Country of origin	2004	2005	2006	2007	2008	Market share (2008)
Italy	229062	207056	194589	312668	340516	0,2936
China	37825	83504	113262	94478	149422	0,1288
Austria	21673	22461	20985	65631	96956	0,0836
Germany	36959	65700	59480	71389	87448	0,0754
Turkey	36106	63455	75674	73286	62742	0,0541
Greece	41796	17100	15533	40009	56080	0,0484
France	58219	47680	43501	39158	53981	0,0465
Czech Republic	897	903	1919	28024	44121	0,0380
Spain	2013	5674	5441	23343	42695	0,0368
Bulgaria	19763	19197	19248	39167	35712	0,0308
Hungary	20411	14251	12974	24047	32343	0,0279
Belgium	3606	5652	9974	17843	28290	0,0244
Poland	2982	6348	5567	9968	17693	0,0153
Bangladesh	3472	7647	8868	8025	17126	0,0148
England	2373	1431	1328	6197	15630	0,0135
Moldova	1049	747	3075	9036	12559	0,0108
Netherlands	2113	3830	3817	6825	11458	0,0099
Vietnam	1492	2809	5013	4620	9426	0,0081
India	660	1244	2559	3393	7600	0,0066
Portugal	4878	5853	7618	5932	5324	0,0046

(Source: author's calculations based on data from the World Trade Organization)

Data presented in the previous table should be interpreted with caution, in the context of alarm signals of the employers' representatives in the field to unfair competition made of Romanian products by cheap poor quality clothing (despite the fact that China is manufacturing also quality products, companies in our country import remnants of collections, per kilogram, which do not comply with the rules of European manufacturing, the only criterion being the low price), brought into the country through various forms of contraband (undervaluation of goods, imports of "ghost companies", use of statements counterfeit transit declarations, use of false documents, harnessing new products as "second - hand" and use "Duty-Free" shops for conducting illegal transactions).

The remarkable and insufficiently exploited potential of the internal market was observed, as the average prices of clothing in Romania are not only far below the

European average but below those in countries like Poland, Hungary and Portugal (Table 6):

Table 6 – Price indices for clothing (EU countries) in 2008

Country	Price indices for clothing in 2008 (EU27 = 100)
Norway	125
Switzerland	124
Finland	123
Croatia	122
Estonia	119
Sweden	119
Greece	118
Island	117
Malta	116
Belgium	113
Montenegro	113
Luxemburg	112
Italy	110
Denmark	110
Austria	108
Germany	107
Lithuania	107
Czech Republic	105
Serbia	104
Slovenia	102
Netherlands	101
EU27	100
Cyprus	96
Hungary	96
France	95
Portugal	95
Latvia	94
Bosnia -Herzegovina	94
Slovakia	92
Ireland	91
Poland	91
Albania	90
Turkey	89
England	86
Spain	86
Romania	86
Bulgaria	84
Macedonia	71

(Source: EUROSTAT, Statistics in focus, no. 50/2009, p. 2)

Romanian clothing producers should consider the capitalization at the highest level of potential of the internal market on top of their interest. Though, this remains an extremely difficult process, considering the modest financial force of the population, combined with the aggressive penetration of the foreign products on the internal market, many of them with equal or superior substitutes in the range of Romanian products.

Planning of production and marketing of clothing requires a series of capabilities and resources in regards to collection and correct interpretation of the information about market trends, a thorough knowledge and methods of distribution channels, the ability to promote brand awareness and to design and implement a policy of price likely to support modern manufacturing quality products (Brenton, P., Hoppe M., 2006). This type of knowledge is acquired and strengthens primarily through the disposal of the products on the internal market. However, in the conditions in which our country is, together with Bulgaria, among the poorest of consumer markets in Europe, it is difficult to anticipate when we attend a growing purchasing power. Achieving higher income induces a more sophisticated demand, which influences the offer. In other words, a sophisticated consumer creates a sophisticated producer – category which, on the internal market, it is extremely poorly represented.

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ANALYSIS OF STATISTICAL DATA CHARACTERISING THE ECONOMIC-SOCIAL INEQUALITIES (DIAGNOSIS) IN THE REGION SOUTH – MUNTENIA – INFRASTRUCTURE AND HOUSING CRITERIA

Cristina Bâldan*

Abstract

This paper is structured in two parts. In the first part we did an analysis of the statistic data which characterizes the economic - social inequalities from the region South – Muntenia from the point of view of infrastructure – housing criteria, and in the second part we achieved the SWOT analysis for the analyzed region in the criteria of infrastructure and housing in the view of delimitating and building the regional profile of the disadvantaged groups from the rural area.

The requirements for an improved rural infrastructure are evident and through upgraded water supply systems, through sewerage systems, must be resolved some serious social problems that exists in rural areas at the regional social level. Investments in such rural infrastructures can also support reduction of high level infant mortality.

In the same time eliminating the negative effects arising from the existence of an inadequate physical and social infrastructure will also lead to a diversification of rural activities.

Developing and upgrading physical and social infrastructure is a first step that must be taken, leading on one hand to an increasing of rural activities, and on the other hand penetration of private capital on the agricultural market.

Keywords: infrastructure, housing quality, rural environment, economic development

JEL Classification: Q10, R10, R51

Introduction

The South region is located in the south of Romania, with an area of 34.453 km² (14.45 % of Romania's surface), corresponding the counties Argeş, Călăraşi, Dâmboviţa, Giurgiu, Ialomiţa, Prahova and Teleorman.

Currently within the region, road transport, being for the last years in constant development, tends to become a leader in the field amid the decline of rail transport.

Crossed by four international roads and by the future highway Constanţa – Bucureşti – Oradea – part of the pan-European transport network, the region has a good national and international opening.

The national road network, largely modernized, ensures a good communication especially between urban centers in the region.

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1. Analyses of statistical data characterizing the economic – social inequalities

1.1. Access to road networks

Quality of road network

Communication with the territory of the country located within the Carpathian arc is provided by four couloirs, namely:

- Prahova Valley (road and rail)
- Olt Valley (road and rail)
- Rucăr – Bran (road)
- Transfăgărășan (road– accessible only during summer)

The region has an European public road network, national and county with a length of 12 051 km. Compared with the technical estate, in generally satisfactory of the national roads, the county and local ones with a share of 77, 31% are mostly inadequate, fact which impede or make hard the traffic, this having a major negative impact particularly in rural areas.

Road transport is supported by rail one, from the region’s rail network making part 4 main artery which make connection with all historical regions: Moldova, Dobrogea, Transylvania and Banat.

In the region is not functioning any civilian airport for passenger and cargo air transport, but is benefiting of the services at largest airport in Romania – București Otopeni, located at minimum 60 km and maximum 120 km from the county capitals in the region.

Table 1. Public roads in South Muntenia region in the period 2000-2006

	2000	2003	2006
Public roads – total:	11818	11805	12051
• Modernized	3199	3295	3525
• With light road asphalt	3260	3319	3681
National roads*:	2502	2515	2734
• Modernized	2440	2457	2609
• With light road asphalt	60	46	93
County and local roads:	9316	9290	9317
• Modernized	759	838	916
• With light road asphalt	3200	3273	3588
Public roads density on 100 km ²	34,3	34,3	35,0

* Including highways and European roads

Source: *Statistical Yearbook of Romania, INSSE.*

The length of the public roads at the end of 2006 was of 1 052 km, increasing from the years 2003 and 2000, when the length of the public roads was of 11 805 and 11 818 km.

In the structure of the public roads network, the national roads whose length was of 2734 km, in the year 2006, having a share of 22,69%, the remaining 77,31% are county and local roads.

In terms of technical aspect the most county and local roads are inadequate, which determines that the access of rural population from some communities (especially in the southern region) at the national roads network to be quite low.

The share of national roads in total public roads increased in the year 2003 comparing with the year 2000 from 21,17% to 21,30%, amounting in 2006 – 22,69%, while the share of county and local roads has reduced in the year 2003 comparing with the year 2000 from 78,83% to 78,70%, and in the year 2006 arrived to 77,31%.

Public roads density is in the year 2006 of 35,0 km/100 km², increasing by 0,7 km/100 km² from the years 2000 and 2003.

The technical estate of the public roads network is generally poor, modernized roads with a length of 3 525 km representing 29,25% from their total length, and the ones with light road asphalt coat 30,55% (3681 km).

The national roads within the region are modernized up to 95,43%, and the county and local ones 9,83%.

The existing road network and the geographical position of the region provide a good internal and international opening.

The main international roads crossing the region, and facilitating the access from and through it at national and international level are:

- E70 – București – Pitești – Craiova – Timișoara
- E60 – Constanța – București – Ploiești – Brașov – Oradea
- E85 – Giurgiu – București – Bacău – Suceava
- E81 – București – Pitești – Sibiu – Cluj-Napoca – Satu-Mare
- E574 – Bacău – Onești – Brașov – Pitești – Craiova

The region benefits also from the advantages offered by the motorways A1 (Bucuresti – Pitesti) and A2 (Bucuresti – Constanta).

The link with the main sea gate of the country Constanta and the access to it over the Danube river, is provided by the rail road bridge Fetesti – Cernavoda and by the road bridge Giurgeni – Vadu – Oii.

The region benefits of checkpoints and border crossings with Bulgaria for auto and rail traffic, located in the counties of Teleorman, Giurgiu and Calarasi.

Of all the most important is the check point cross border and customs terminal for goods Giurgiu – Ruse, through which, due to rail road bridge is ensured the link between the countries of north-western and central Europe and the Middle East.

1.2. Municipal technical equipment

Share of the localities where natural gas is distributed.

Public utilities, due to their major role in reinvigorating the region and increasing its economical performances, requires special attention, providing and improving them contributing to the region's economic development, improves the

inhabitants standard of living and to protect the environment.

Thereby, the region's urban centers, real poles of economic and social activities concentration and in the same time leaders of the changing process, requires multiple interventions to ensure the upgrading and extension of public utilities.

However, insufficient, and often, the lack of public utilities from the rural area, requires major investments in this area with the purpose to ensure to the rural communities the optimum conditions for socio-economic development and in order to facilitate their presence and active participation to region's economy.

Regarding natural gas supply, within the region are connected to the national gas distribution system a number of 133 localities, in the year 2006, representing 17,18% of country's total, of which 90 were from rural villages areas.

The length of the gas distribution network at region level is about 3 792 km.

Table 2. Localities where natural gas is distributed in the region South Muntenia in the period 2000 – 2006

	2000	2003	2006
Number of localities where natural gas is distributed – total:	94	146	133
• rural	64	116	90
Localities share where natural gas is distributed – total:	17,34%	11,96%	17,18%
• rural	17,16%	11,16%	16,36%

Source: TEMPO – ON LINE Data base, INSSE.

Localities share where natural gas distribution declined in 2003 compared with 2000 both per total, from 17,34% to 11,96%, and also in rural areas, from 17,16% to 11,16%. This share reduction was achieved on the base of the increasing localities where natural gas is distributed both per total, from 94 to 146, and also in the rural area, from 64 to 116.

In 2006 the share of localities where natural gas is distributed increased in 2006 compared with 2003 both total, from 11,96% to 17,18%, and also in rural areas, from 11,16% to 16,36%. This share increase was achieved on the fond of localities reduced number in which natural gas is distributed both per total, from 146 to 133, and also in rural areas, from 116 to 90.

Overall length of the simple distribution of drinking water

Most localities in the region are supplied with water in centralized system, supplying sources being surface water and groundwater.

From the total of 557 localities (cities, towns, villages) of the region, 305 are equipped with centralized drinking water supply which represents 54,76% at regionally and 16,4%at country level.

Regional network of drinking water distribution has a total length of 9057,6 km, of which 5077,6 km in rural areas.

Table 3. Overall length of the simple distribution network for drinking water in South Muntenia region, in the period 2000-2006**- km -**

	2000	2003	2006
Overall length of the simple distribution network for drinking water – total:	6299,1	7061,1	9057,6
• urban	3389,3	3598,9	3980
• rural	2909,8	3462,2	5077,6

Source: TEMPO – ON LINE Database, INSSE.

Overall length of the simple distribution network for drinking water registered an increase in 2003 compared with 2000, from 6299,1 km to 7061,1 km, per total and from 2909,8 km to 3462,2 km, in rural areas.

In 2006 compared with 2003, the total length of drinking water distribution network registered an increase from 7061,1 km to 9057,6 km, per total and from 3462,2 km to 5077,6 km, in rural areas.

A general characteristic of drinking water supply networks in particular of those in urban areas is the high rate of wear and age, with major implications in terms of ensuring the necessary drinking water of the population.

With regard to public sewerages their total length is 2156 km, with 92 receiving localities, of which 46 cities.

Also from the point of view sewage waste water the population in rural areas is disadvantaged, in the region benefiting from such a network a number of 46 communes.

The public distribution network for drinking water, plant capacity and the volume of drinking water distributed to consumers can not provide the utilities needs of the rural population, both in number of inhabitants that are beneficiaries but also as proportion of endowed rural localities.

1.3. Quality of housing

Number of rooms/person

In the period under review has increased the number of rooms/person, both per total but also in the rural area. This growth take place on the increased number of dwellings both in rural but also per total. This increase was also due to the increased number of people living in rural areas.

Table 4. Number of rooms/person in the region of South Muntenia, between 2000 and 2006

	2000	2003	2006
Population, from which:	3471322	3368615	3321392
• rural	2022408	1996865	1936489
Number of rooms, from which:	3347418	3516212	3557222
• rural	2115584	2207355	2232136
Number of rooms/person, from which:	0,96	1,04	1,07
• rural	1,05	1,11	1,15

Source: TEMPO Database – ON LINE, INSSE.

In the analyzed region the number of rooms/person increased in 2003, by comparison with 2000, totally but also in the rural regions. In rural regions raised from 1,05 to 1,11, and in total from 0,96 to 1,04. This increase was due to both the increased number of rooms and also to the reduced population from one period to another.

In 2006 compared with 2003 has increased the number of rooms per person in both total and rural areas. In rural areas increased from 1.11 to 1.15, while the total from 1.04 to 1.07. This increase was due to both the increased number of rooms and also by the reduced population from one period to another.

Dwelling area per capita

In 2000-2006 there was an increase of habitable surface, both total and rural, while in 2003 compared with 2000 the living space was reduced in urban areas, although the total has increased.

Table 5. Dwelling area per capita in South Muntenia region, in the period 2000 and 2006

	2000	2003	2006
Population, from which:	3471322	3368615	3321392
• rural	2022408	1996865	1936489
Dwelling area (m ²), from which:	273982	296671	356956
• rural	184857	166193	224486
Dwelling area per capita (m ² /capita), from which:	0,08	0,09	0,11
• rural	0,09	0,08	0,12

Source: TEMPO Database – ON LINE, INSSE.

The dwelling area per capita, in the analyzed region, increased from 0.08 to 0.09 m² per capita in 2003 compared with 2000, while in rural areas fell from 0.09 to 0.08 m² per capita. Reduction recorded in rural areas was due to the fact that the regional population reduction was accompanied by a reduction in the livable area.

In 2006 compared with 2003, the living space per capita increased in both rural and total, from 0.08 to 0.12 m² per capita in rural areas and from 0.09 to 0.11 m² per capita overall. This increase was significant compared with that recorded in 2000-2003. The increase has been registered against the backdrop of habitable surface with 20.32% overall and 35.08% in rural areas.

Number of completed dwellings during the year

Number of completed dwellings increased in 2000-2006, both total from 4481 to 5241, and in rural area from 3228 to 3329. This increase was of 3.13% in the rural area and 16,96% in total.

Table 6. Number of finished housing during the year in South Muntenia region, between 2000 and 2006

	2000	2003	2006
Number of finished housing during the year - total:	4481	4642	5241
• urban	1253	2044	1912
• rural	3228	2598	3329

Source: TEMPO Database – ON LINE, INSSE.

In the South Muntenia region, the number of completed dwellings increased in 2003 compared with 2000 by total, while in rural areas has decreased, and in 2006 compared with 2003 was an increase in both total and rural.

In 2003 compared with 2000 has been registered a decrease with 19.52% of the number of completed dwellings in the rural area, while per total has been registered an increase with 3.6% of the number of completed dwellings during the year. This increase of 3.6% happened because of the increased number of completed dwellings from the urban areas with 63.13%.

2. Swot analysis of South Muntenia region– infrastructure and housing criteria

SWOT analysis is not a simple presentation of the factors which describe the situation of infrastructure and current housing and the potential conditions of South Muntenia region, it is a basic tool in the process of identification of the most important strategic directions and priorities which will conduct to economic development and social cohesion of the region in the next period.

Starting from the SWOT analysis of South Muntenia region – infrastructure and housing criteria we can say that the economic development of rural areas is affected by multiple problems generated by the access roads condition, the lack or insufficiency of public utilities and social infrastructure. Also, the life quality is strict determined by the distance at which the products and services necessary for peoples are.

Taking into consideration the actual economic conditions, the development of rural areas under all aspects, may and have to assure a socio-economic alternative of urban areas.

<i>Strengths</i>	<i>Weaknesses</i>
<ul style="list-style-type: none"> • The presence of pan-european transport corridors (E574, E81, E70, E85 și E60) and highways: A1 (Bucharest – Pitesti) and A2 (Bucharest – Constanta), The Danube River • The existence in the region of airports: Bucharest – Otopeni and Bucharest – Baneasa • Good density of transport network • The existence in the region of Danube river path and some important points of passing the 	<ul style="list-style-type: none"> • poor technical conditions of local roads, the highest rates of modernized public roads recorded in southern counties: Teleorman, Ialomita, each with 33% • low use of the ports on the Danube, low traffic generating the decline of profile activities • Failure to use the railway network at full capacity • Inadequate technical level of county and local

border <ul style="list-style-type: none"> • The road, rail and river access at the Black Sea • Good density of natural gas networks in the North of the region • high level of coverage of fixed and mobile networks 	road networks <ul style="list-style-type: none"> • Low efficiency of urban and public transport system • reduced traffic safety on public roads • Reduced Infrastructure of river ports • Infrastructure to support public service reduced • insufficient natural gas networks in the southern region • Public Utilities degraded: advanced degree of degradation/underflow of water pipes, low density gas supply network • Limited access to ICT • Poor technical-household features in urban areas and insufficient in rural areas.
<i>Opportunities</i>	<i>Threats</i>
<ul style="list-style-type: none"> • Extension/modernization of road network • The development of support infra-structure for economic activities • The development of internal and across border cooperation • The development of cooperation with the countries that have access to the Danube River • The increase of competitiveness and region attractiveness • Modernization of transport infrastructure • the increase of TIC usage level 	<ul style="list-style-type: none"> • Insufficient financial sources for local and regional infrastructure development • Omission of investment orientation to sectors with growth potential • Omission of investment correlation with the educational system and the business environment • Negative demographical trend • The widening imbalance between rural and urban communities

The complex problems of the countryside involve taking measures to reduce or eliminate disparities and make a socio - economic connection.

Conclusion

The rural infrastructure from South Muntenia region is underdeveloped and has big disparities between the north part of the region which is more industrialized and the south part which still is predominantly agrarian.

In most parts of the rural area we can note not modernized local roads and dust or gravel roads which have a negative impact on direct access to the national road network or to the railroad.

Significant deficiencies are found also at those which ensure circulation in rural areas and/or serve access to farms. Also, water supply networks in a centralized system, sewerage and sewage treatment plants are almost absent.

Thus, in most municipalities lack sewer systems and wastewater treatment; wastewater is usually discharged into the rivers crossing the region.

Under these conditions, many rural households don't have the possibility and/or opportunity to access extended agricultural services, markets, and thus they can't sell their agricultural production and generate alternatives at the subsistence environment.

In terms of economic and social development, rural areas are still dependent on agricultural activities based on primary exploitation of natural resources.

The demands for a better rural infrastructure are obvious and by modernized water supply systems, by sewers, it must be solved some of the seriously social difficulties which exists in the rural areas at regional level. Investments in those rural infrastructures can also support reducing high levels of infant mortality.

Also eliminate the negative effects generated by the existence of an inadequate physical and social infrastructure will lead to a diversification of rural activities.

Developing and upgrading physical and social infrastructure is a first step to be taken, leading on the one hand the increase of attractiveness in rural areas , and secondly the penetration of private capital in the agricultural market.

Objectives:

- creation, rehabilitation and modernization of public utilities
- ensuring an efficient transport of people, goods and raw materials
- ensure the necessary water quantity and increasing its quality

Indicative activities:

• modernization of linking roads between communities and their access roads to the national, county and local roads

- modernization and extending water supply networks
- modernize and make drinking water treatment plants and sewage treatment

Cover area - entire region

Impact:

- economic and social revitalization of rural communities
- increased attractiveness for investment
- valuing the rural areas with development potential
- increase the degree of comfort and reduce the risk of illness of rural population

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PROJECT MANAGEMENT ADJUSTMENT TO THE NEW WORLD TRENDS

Anca Cruceru*

Abstract

All changes that „govern” the economy, the society, the organization and the management based on knowledge (new world trends) could not have been implemented without projects. Also, the economy, society, organization and its management could not have adapted and develop should there not have been a rigorous project management. Therefore, both the project and the project management help the organization’s adaptation to change and also, in its turn, these concepts need transformations in order to adapt to a knowledge based organization. This article presents the changes (“mutations”) that occurred within projects and their managements in view of adapting to the new world trends.

Keywords: new world trends, project, project management, changes (“mutations”)

JEL Classification: D83, M10, M14, O22

Introduction

„Along with switching to the knowledge based economy, there can be observed an increase of project importance within organizations”⁵. The organizations become in this context project orientated organizations that develop their activity in a project orientated society.

Thus, all the changes that “govern” the economy, society, organization and knowledge based management (new world trends) could not have been implemented without projects. Also, the economy, society, organization and its management could not have adapted and develop should there not have been a rigorous project management.

Particularly, the interest is that of observing the method in which project management shall help the organization to adapt to change; and this shall be observed during this present article.

In order to understand the project management concept, below there is a presentation of the project concept.

Project. Concept. Characteristics

Projects existed ever since the Antiquity and have developed along with the progress registered at the level of the economy and society that we live in and also at the level of the organizations that run the activity that sustain human evolution.

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⁵ Victor Radu, Ion Ioniță, Carmen Nadia Ciocoiu, Cristian Silviu Bănaciu, Cătălin Răzvan Dobrea, Doru Curteanu, Cezar- Petre Simion, Mihai Vrâncuț, Florin Gabriel Anghel, Monica Irina Radu, 2008

The project concept has been defined by many specialists, as follows:

- Project Management Institute: „the project is a temporary effort undertaken in order to create a product, service or a sole result”⁶;

- Victor Radu, Ion Ioniță, Carmen Nadia Ciocoiu, Cristian Silviu Bănaciu, Cătălin Răzvan Dobrea, Doru Curteanu, Cezar-Petre Simion, Mihai Vrâncuț, Florin Gabriel Anghel, Monica Irina Radu: „the project – a temporary process that contains a series of activities and that has to be developed over a well defined period of time, with an allocated amount of resources and that has to attain a specific defined objective”⁷;

- Rarita Szakats⁸ considers that the project represents a sequence of activities that do not have a well defined start and end, where some objectives are aspired to and a quantity of resources is used, etc.

The project presents more characteristics:

- It is accomplished over a certain period of time;

- It has stated SMART type objectives (to be specified, measurable, achievable, realistic and within the allotted time);

- It needs the allocation of financial, human, material, information, etc. resources;

- It is unique by project’s purpose and by modes of accomplishment, means of resource combination, etc.

My opinion is that the project represents a process that contains an assembly of interdependent activities that have to be achieved in a well defined period of time, using a certain amount of resources and by means of which some objectives are fulfilled.

In order to sustain the relation between the project and the knowledge based economy, I consider necessary the following statements:

- due to the changes in the economy and society, you can observe the significant need for using projects for adapting to these changes; also, the changes in the external environment influence the organization and its management, taking into consideration that changes themselves can be seen as projects;

- knowledge is used within a project, by putting to good value the intellectual capital existing in the organization; the results of project developing is other ‘knowledge’ that will satisfy both the needs (requests) of the client and the needs of the organization.

Project typology

The specialists⁹ have classified the projects by many criteria, such as:

- by their complexity: *complex projects* and *simple projects*;

⁶ Project Management Institute, 2008

⁷ Victor Radu, Ion Ioniță, Carmen Nadia Ciocoiu, Cristian Silviu Bănaciu, Cătălin Răzvan Dobrea, Doru Curteanu, Cezar- Petre Simion, Mihai Vrâncuț, Florin Gabriel Anghel, Monica Irina Radu, 2008

⁸ Rarita Szakats, 2006, pg. 3

⁹ Victor Radu, Ion Ioniță, Carmen Nadia Ciocoiu, Cristian Silviu Bănaciu, Cătălin Răzvan Dobrea, Doru Curteanu, Cezar- Petre Simion, Mihai Vrâncuț, Florin Gabriel Anghel, Monica Irina Radu, 2008
Mariana Mocanu, Carmen Schuster, 2001

James McCollum, Cristian Silviu Bănaciu, 2007

- by their financial support source: *projects with public financing, projects with private financing and projects with mix financing*;
- by their volume: *organizational projects, local projects, national projects, regional projects and international projects*;
- By project consequence: *construction projects with public or private purpose, product projects, information projects, informatics and telecommunication infrastructure projects, industrial development projects, etc.*;
- By branch of activity: *education projects, health projects, industry projects, tourism projects, public administration projects, etc.*;
- By financing duration time: *short-term projects (under 1 year), medium-term projects (1-2 years), long-term projects (over 2 years)*;
- By specialty purpose intended to accomplish: *investment projects, research and development projects and organizational projects*;
- By the projects' degree of novelty and implications from social point of view: *acceptance projects; standard projects, pioneer projects and potential projects*.

Researching the projects' criteria diversity, I believe that all projects developed in an organization can be classified by more criteria developed by the specialists. Also, the extensive project typology offers the possibility to choose that type of project (types of project) adequate to the organization that would best fulfil its needs.

Project's life cycle, processes within a project and project's areas of knowledge

The project's life cycle illustrates all the stages and phases that a projects goes through, after which the project is considered finished.

Below, there are a few models of project life cycle:

1. Model of projects with European funding:

- "Programming;
- Identification;
- Enunciation;
- Implementation;
- Evaluation (and/ or identification)¹⁰".

2. General model of a project's life cycle¹¹:

- define the project: identify the project's purpose; project idea; draw the project; feasibility study; project's approach strategy; obtain approvals and notifications;
- plan the project: draw a resources plan; fix the costs; draw the main project; conclude the contracts and set the deadlines; elaborate a detailed plan;
- execute the project: establish the project team and the tasks of its members; achieve the actual project based on the agreed upon plan; conclude the project; achieve an intermediary check-up;

¹⁰ Victor Radu, Ion Ioniță, Carmen Nadia Ciocoiu, Cristian Silviu Bănaciu, Cătălin Răzvan Dobrea, Doru Curteanu, Cezar- Petre Simion, Mihai Vrâncuț, Florin Gabriel Anghel, Monica Irina Radu, 2008

¹¹ James McCollum, Cristian Silviu Bănaciu, 2007

- check the project: test the project's results; internal and external evaluation of the project's results; results' propagation; internal and external financial control; project extension.

Because of the field of activity, the projects are different from the life cycle point of view.

But, certain stages that appear in all presented model can be observed:

- “project start;
- project set up and organization;
- carry out the activities within the project;
- project finishing”¹².

Within a project, the project's life cycle and the processes carried out within the project must not be confused.

All projects are made of processes. “A process represents the sum of actions and operations achieved within the project and are characterised by inputs, outputs, instruments and techniques used for obtaining the outputs”¹³.

The specialists¹⁴ identified the following processes as being those developed during a project:

- initiate/ initialization – processes through which the project or a project phase received the approval to start;
- planning – processes that establish the project's detailed plan;
- execution – processes that implement the prior set plan;
- monitor and control – processes that analyze the project's results by comparing them to the set plan and maybe restart the planning process in view of achieving the project's purpose;
- finish – processes that conclude all the activities of the project or of one of its phases.

Reflecting upon the previous mentioned theoretical concepts, it can be observed that the processes that develop within a project are included in the project's life cycle.

Also, the five above-mentioned processes have the same order of development in any project or subproject. There is a strong interdependence between the processes, that leads to the idea that should one of the processes not be achieved or be achieved incompletely, malfunctions will appear in the project or subproject.

Each process is characterized by certain inputs and outputs. The process outputs shall be inputs for the following process, thus observing the processes' interdependence and, implicitly, the importance of abiding by deploying the processes in the above-presented order.

¹² Project Management Institute, 2008

¹³ Mariana Mocanu, Carmen Schuster, 2001

¹⁴ Project Management Institute, 2008

Victor Radu, Ion Ioniță, Carmen Nadia Ciocoiu, Cristian Silviu Bănașu, Cătălin Răzvan Dobrea, Doru Curteanu, Cezar- Petre Simion, Mihai Vrâncuț, Florin Gabriel Anghel, Monica Irina Radu, 2008

Kim Heldman, 2009

Mariana Mocanu, Carmen Schuster, 2001

“Each group of processes is made up of a range of processes that is used during the entire life cycle of the project. The PMBOK guide groups these processes in nine categories named “Areas of Knowledge of the Project Management”¹⁵.

The PMBOK guide integrates in a table the interactions that take place between the processes groups within a project and its areas of knowledge:

Table 1

Groups of processes for project management and separating the areas of knowledge¹⁶

Knowledge Areas	Project Management Process Groups				
	Initiating Process Group	Planning Process Group	Executing Process Group	Monitoring and Controlling Process Group	Closing Process Group
Project Integration Management	Develop Project Charter	Develop Project Management Plan	Direct and Manage Project Execution	Monitor and Control Project Work; Perform Integrated Change Control	Close Project or Phase
Project Scope Management		Collect Requirements; Define Scope; Create WBS		Verify Scope; Control Scope	
Project Time Management		Define Activities; Sequence Activities; Estimate Activity Durations; Estimate Activity Resources; Develop Schedule		Control Schedule	
Project Cost Management		Estimate Costs; Determine Budget		Control Costs	
Project Quality Management		Plan Quality	Perform Quality Assurance	Perform Quality Control	
Project Human Resource Management		Develop Human Resources Plan	Acquire Project Team; Develop Project Team; Manage Project Team		
Project Communications Management	Identify Stakeholders	Plan Communications	Distribute Information; Manage Stakeholder Expectations	Report Performance	
Project Risk Management		Plan Risk Management; Identify Risks; Perform Qualitative Risk Analysis; Perform Quantitative Risk Analysis; Plan Risk Responses		Monitor and Control the Risks	
Project Procurement Management		Plan Procurements	Conduct Procurements	Administer Procurements	Close Procurements

Source: PMBOK Guide, 2008

¹⁵ Kim Heldman, 2009

¹⁶ Project Management Institute, 2008

Project management. Definition and concept clarifications

Due to the changes enforced by the economic, political and social environment, in the second half of the 20th century, the project management (or projects' management) concept took shape. In time, it developed and adapted very well to the business environment, thus being in the 21st century an efficient method to support the organization's management (management by projects).

Project management has been approached by many specialists:

- Project Management Institute considers that project management implies “applying the knowledge, skills, instruments and techniques to the project's activities in order to fulfil the project's requests”¹⁷;

- Radu Victor and his co-workers¹⁸ defined the concept using an adaptation after The Chartered Institute of Building, according to which project management represents the assembly of the project's planning, organization, coordination and control stages, from its start to its finish, with the purpose of fulfilling the client's requests regarding obtaining a viable product both from financial and functional point of view, while complying with the quality imposed standards, the execution costs and deadlines agreed upon by the implicated parties, etc.

My opinion, project management represents the assembly of planning, organization, coordination, training and control- evaluation actions that help fulfil the project's purpose, according to the client's needs.

Project management has the purpose to anticipate the threats and problems that can occur within a project and also to forecast, organize and control the carried out activities so as the project to be successfully concluded irrespective of the existing risks.

“Project management must be:

- Objective centred;
- Change centred;
- Multidisciplinary;
- Innovative;
- Control centred;
- Performance orientated;
- Flexible.”¹⁹

The project management (or project's management) concept must not be confused with the concept of management through project. In other simplified words, management through project represents a method of running an organization in which all carried out activities are considered a project. When applying this method of management, the knowledge of project management is used. Therefore, after defining the two concepts, it can be asserted that management through project

¹⁷ Project Management Institute, 2008

¹⁸ Victor Radu, Ion Ioniță, Carmen Nadia Ciocoiu, Cristian Silviu Bănaciu, Cătălin Răzvan Dobrea, Doru Curteanu, Cezar- Petre Simion, Mihai Vrâncuț, Florin Gabriel Anghel, Monica Irina Radu, 2008

¹⁹ Victor Radu, Ion Ioniță, Carmen Nadia Ciocoiu, Cristian Silviu Bănaciu, Cătălin Răzvan Dobrea, Doru Curteanu, Cezar- Petre Simion, Mihai Vrâncuț, Florin Gabriel Anghel, Monica Irina Radu, 2008

cannot be used without project management, but project management can be used independently from a management through project.

Both project management and management through project are “key” concepts in the knowledge based organization, because it becomes an organization that in run through projects. In these conditions, we need an organization through projects, precisely to be able to adapt the classical organization to the new world trends.

Organizational structures used in projects

Depending on the frequency with which projects are achieved in order to fulfil own activities or activities for third parties, the organizations have available a certain structural organization.

On account of the fact that the project is accomplished with the help of a project team that aims to achieving the project, considering abiding by the set budget, concluding in due time and complying with the technical specifications, “the existence and operation of such teams imply two organizational problems: integrating the project team in the organization’s organizational structure and creating an organizational structure for the project itself”²⁰.

Below, there are presented the types of organizational structures that are most used within projects.

The functional organization is that classical organization in which each employee receives tasks from only one superior; the employees are grouped depending on their specialities in their functional departments; the moment a project has to be carried out, each employee shall achieve his activities within the department he belongs to, independently from the activities carried out by the other employees from the other departments implicated in that project. This form of organization “implies integrating the project within the organization’s functional organization”²¹.

The organization by projects (or „pure organization by projects”) is that organization in which the project represents an entity that carries out its activity independently from the rest of activities within the organization; the project manager holds the full authority and responsibility for the entity that he runs.

The matrix organization is the organization that combines the advantages of the functional organization and of the organization by projects. This organization can be found at organization level under different forms: Weak Matrix Organization, Balanced Matrix Organization and Strong Matrix Organization.

Within a project, it is very important to choose the most adequate form of organization, as without an efficient organization, the project cannot run and the wanted results cannot be obtained.

²⁰ Victor Radu, Ion Ioniță, Carmen Nadia Ciocoiu, Cristian Silviu Bănaciu, Cătălin Răzvan Dobrea, Doru Curteanu, Cezar- Petre Simion, Mihai Vrâncuț, Florin Gabriel Anghel, Monica Irina Radu, 2008

²¹ Victor Radu, Ion Ioniță, Carmen Nadia Ciocoiu, Cristian Silviu Bănaciu, Cătălin Răzvan Dobrea, Doru Curteanu, Cezar- Petre Simion, Mihai Vrâncuț, Florin Gabriel Anghel, Monica Irina Radu, 2008

In key with the above-mentioned idea, the knowledge based organization promotes the organization by projects, exactly because the project is essential for supporting the ideas of the new world trends and also it represents an adequate mode for adaptation.

The relation between project/ projects management and the economy, society, organization and knowledge based management

In order to explain the relation that exists between project and the economy, society, organization and knowledge based management, below there are just a few of the transformations²² of the new world trends:

- „the explosion of information technologies” – increase in the importance of the information resource in running the economic processes and implicitly in project running;
- „increase in the importance of generating, exploiting and perfecting the technologies” – these processes are carried out exclusively through projects;
- Strong “innovation character” – characteristic present in each project;
- “production demassing” – the obtained products are in small series or unique; these products are generally obtained after running some projects;
- “decreasing the factor in the production field in favour of the services field” – increase the frequency of using project management.

The characteristics presented above denote the fact that the knowledge based economy needs projects, and the organizations need an efficient project management that ensures the continuity in the near future which faces the new transformations.

After running the projects, knowledge is obtained, both technological as well as managerial and economical.

In order to survive and also to develop in the present conditions, the organizations become project orientated organizations.

“The relationship between project and the knowledge based economy is thus a strong one especially a bivalent one, and as demonstrated by the present evolutions, it shall, in the future, be the main concern in the economic and managerial field”²³.

Importance of projects and project management

In a century of changes, governed by „knowledge”, the project and its management became requisite concepts in running and developing of organizations.

In the 21st century organization, the project is a very important element that helps carry out the activity, as it:

- “Initiates change;
- Ensures development;

²² Victor Radu, Ion Ioniță, Carmen Nadia Ciocoiu, Cristian Silviu Bănaciu, Cătălin Răzvan Dobrea, Doru Curteanu, Cezar- Petre Simion, Mihai Vrâncuț, Florin Gabriel Anghel, Monica Irina Radu, 2008

²³ Victor Radu, Ion Ioniță, Carmen Nadia Ciocoiu, Cristian Silviu Bănaciu, Cătălin Răzvan Dobrea, Doru Curteanu, Cezar- Petre Simion, Mihai Vrâncuț, Florin Gabriel Anghel, Monica Irina Radu, 2008

- Allows achieving the objectives proposed in time, abiding by the budget, with the available human resources and technologies;
- Maintains the internal and external competitiveness;
- Creates competitive advantages;
- Makes efficient the organization's activity²⁴.

The importance of project managements originates from the fact that it is a modern management concept that tries to integrate the structures and methods of management, irrespective of the complexity of the activity carried out by the organization and taking into consideration the its organizational flexibility. Also, it tries not to neglect the social and psychological aspects of the organization.

In the present conditions (economy and knowledge based society), the organization's management intends to integrate as well as possible the projects within the organization and tries to develop its capacity to run projects, considering that this shall confer one or more competitive advantages (ideas promoted also by the knowledge based organization).

Changes within the projects and project management in view of adapting to the new world trends

This subchapter would like to emphasize the „mutations” (changes) that have to be achieved at project and project management level in view of adapting to the changes set by the knowledge based organization.

From the consulted biographical sources, the “mutations” at project and project management level could not be identified, and therefore below there are my own ideas on the subject of this present subchapter.

Thus, my opinion is that the predictable “mutations” (changes) that can occur within a project and project management are the following:

- First, I have to mention that within the project the knowledge shall represent the main element that shall help in its planning, running and concluding;
- Within a project, the knowledge shall fulfil all three economical roles: raw material (knowledge of the project team's members, of the project manager and of the other stakeholders); the production factor (knowledge, together with the other classical production factors shall help run the project and obtain the wanted product or service) and the final product;
- Within a project, there shall be the four major processes that imply knowledge: achieving or obtaining knowledge – the project team's members shall divide certain tacit knowledge, thus offering a partial capitalization of the intellectual capital; creating knowledge – the product, service or work to be obtained after running the project; using the knowledge – that are in the possession of the project team, the project manager , stakeholders; and maintaining the knowledge – databases that shall contain project considered a start point for running other similar projects;

²⁴ Victor Radu, Ion Ioniță, Carmen Nadia Ciocoiu, Cristian Silviu Bănașcu, Cătălin Răzvan Dobrea, Doru Curteanu, Cezar- Petre Simion, Mihai Vrâncuț, Florin Gabriel Anghel, Monica Irina Radu, 2008

- The organizations shall run projects with mixed teams, made up of specialists from within the organization and also from outside the organization, especially in order to develop own knowledge and to acknowledge the synergetic type cooperation opportunities in the knowledge field;
- The motivation system at project level shall be present as follows: the increase of the rewards shall be achieved depending on performance and merits for the project team's members; and the simultaneous use of the global, group and personal stimulants shall be intensified, for the project team;
- An open culture at organization level shall be promoted and implicitly at project level, so that the stakeholder categories observe the method to make operational the decisions they are interested in;
- Integrating the project within the organization shall be possible by adopting an organizational structure specific to the knowledge based organization and namely the organization by projects;
- The organization shall become an organization through projects; in these conditions, all that the organization produces or renders, shall be perceived as a project by its own, requiring a project management as well as an administration as efficient as possible (project management);
- The project team's members shall become knowledge based employees, the project manager shall be a knowledge based manager (T-manager), and the project shall become a knowledge based community;
- Both in the Areas of knowledge and in the project management processes, there shall be used, according to case, financial, material, human, information and knowledge resources, that shall help fulfilling the project's entire life cycle;
- All inputs within a project process shall imply besides certain resources categories, also knowledge; all outputs within a process shall mainly represent the knowledge assimilated in the following process; therefore there can be conveyed the idea that all processes that develop within a project shall be based on the material, human, financial, information resources and the knowledge of the persons implicated within the project and not only, meaning on putting to good value the intellectual capital of the organization and exclusively of the project;
- Within the project management, the intellectual capital (human capital, structural capital and clients capital) shall put to good value through planning, organization, coordination, training and control- evaluation actions that shall help fulfil the project's purpose according to the client's needs, meaning they shall support the obtaining of "new" knowledge.

Conclusion

Both the project and project management help the organization in case of change and also, in its turn, these concepts need transformations in order to adapt to the knowledge based organization.

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**THE EVOLUTION OF FDI IN ROMANIA DURING
THE PERIOD 1990-2009**

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Gruiescu Mihaela*

Abstract

FDI is a key factor for economic modernization through changes in production patterns, technology transfer and greater competition pressures. In the latest years, Romania has benefited from important FDI flows, mainly due to the privatization process, but also due to the advantages of cheap labor force and a big internal market. From the beginning of the transition period, Romania went through a rapid opening-up process of its economy, which has resulted, among others, in attracting significant foreign direct investment (FDI). The presence of foreign firms has grown significantly, which is a sign of increasing economic integration.

In this paper we shall make an analysis of the FDI evolution in Romania using the data provided by the National Trade Register Office of Romania for the period 1990-2009 and National Institute of Statistics.

Keywords: economic development regions, regional disparities, foreign direct investments.

JEL Classification: O1, R12

1. Evolution of foreign direct investments in Romania from the beginning of the transition period

For a post-communist country, Romania has made significant progress in attracting foreign direct investment, taking into account the fact that foreign direct investment is impetuous required in order to straighten up the "significant gap with industrialized countries (Negritoiu, 1996).

After the change of its political and economic system in 1989, Romania opened its market to foreign investment. However, for most of the 1990s annual foreign direct investment flows remained rather modest. They started to increase significantly only after 2003.

Regarding the evolution of FDI in Romania during 1991-2009 we can distinguish three main period: the first period is between 1991 and 1997, the second period is between 1998 and 2003 and the third period is between 2003 and 2008

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Dimension and evolution of FDI are presented in the following table and graph:

Table 1: Evolution of FDI attracted by Romania and number of commercial companies with foreign participation to social capital during 1991-1997

Year	1991	1992	1993	1994	1995	1996	1997
FDI (thousand dollars)	1058260.8	573271.2	417844.8	881673.3	237717.0	573594.2	359912.8
Number	5499	11765	10583	11053	3400	3630	5251

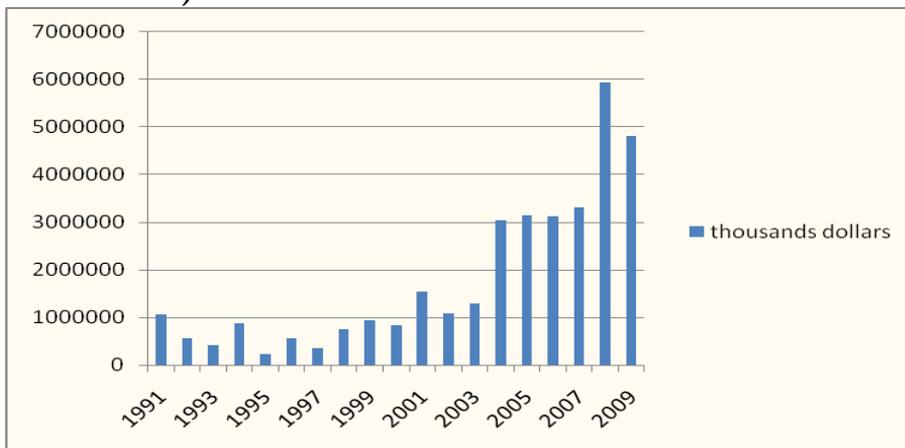
Table 2: Evolution of FDI attracted by Romania and number of commercial companies with foreign participation to social capital during 1998-2002

Year	1998	1999	2000	2001	2002
FDI (thousand dollars)	755475.3	944365.3	839143.8	1540810.8	1078746.2
Number	8801	7383	8567	7175	7518

Table 3: Evolution of FDI attracted by Romania and number of commercial companies with foreign participation to social capital during 2003-2009

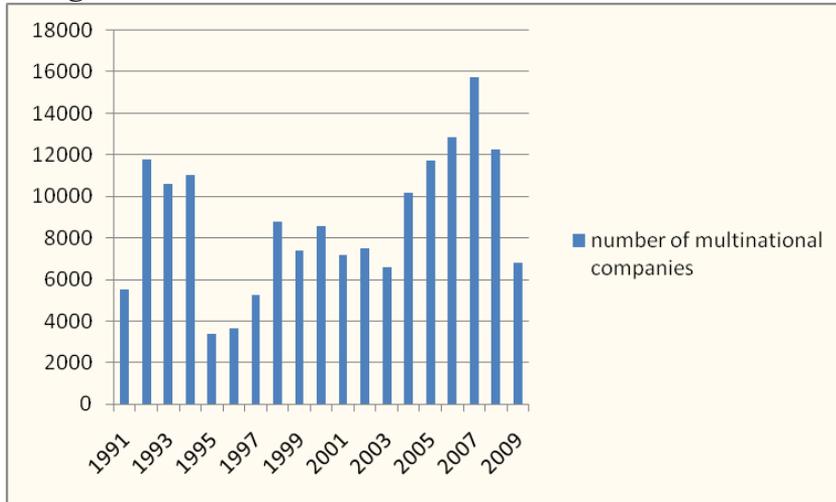
Year	2003	2004	2005	2006	2007	2008	2009
FDI (thousand dollars)	1288885.0	3032218.4	3149681.6	3127314.6	3314201.6	5924852.8	4817293.2
Number	6609	10167	11719	12823	15720	12264	6801

Graph 1: Evolution of FDI attracted by Romania during 1991-2009 (thousand dollars)



Source of data: http://www.onrc.ro/statistici/sr_2010_09.pdf

Graph 2: Evolution of the number of multinational companies in Romania during 1991-2009



The graphs presented above clearly show a very low amount of FDI during the first period, namely between 1991 and 1997. This happened because the economic reform, including the privatization of the state sector, started later than in the other CEECs and has progressed slowly and hesitatingly. The specificity of the privatization process (mass privatization) was not favorable to FDI participation, and there was no strategy towards attracting FDI; on the contrary, the slogan was ‘we do not sell our country’. Mainly trial investment entered the country. We may say that at that time, Romania missed the initially favorable conditions due to the lack of political will to reform the economy.

Starting with 1998, the situation has changed and the stock of FDI started to ascend, even though evolution was a fluctuating one. Large scale privatizations and positive changes in the business climate were among the determinants of this new evolution trend. Certainly, the progress in fulfilling the criteria of adhesion to the EU has substantially contributed to the increase of the investors’ confidence. We may even notice several peak years of FDI amount, which are related to the privatization of several huge state owned companies. Until the end of 2003, the Romanian Government has privatized most of the sectors of economy. The largest privatizations deals yet concluded: Romanian Developed Bank (sold to Societe Generale), Dacia car manufacturer (sold to Renault), Sidex (sold to LNM Ispat in 2000) and Agricultural Bank (sold to Raiffeisen Bank in 2001). In 2003 the Privatization Authority (APAPS) finalized 309 sale-purchased contracts, bringing almost USD 300 millions to the state budget.

An accelerated growth during the period 2003-2008 has placed Romania among attractive FDI destinations as a consequence of proximity of accession and the improvement of country’s rating and economic performance.

The amount of foreign direct investments is dependent also upon the privatization strategy adopted by the government during the period 2003-2008.. The important privatization in this period are: Petrom (OMV acquired 33% in 2004), Electrica Banat and Electrica Dobrogea (Italian company Enel acquired in 2004), Romanian Commercial Bank (Erste acquired in 2005).

In 2006, Romania was located in the third place among the New Member States (NMS), after Hungary and Poland, in total value of FDI stock. In 2007, Romania's FDI flows decreased, as a consequence of the finalization of the privatization process. EU enlargement has contributed significantly to raising Romania's attractiveness for foreign investments. Romania has conformed to European regulations, shows records of economic growth and has a market economy status. The transition towards ERM II has created institutional instruments for a controlled inflation and computational pressures have strengthened monetary discipline.

Consequently, the investors' interest in Romania has increased steadily in this period. Cheap and skilled workforce, low taxes, improving the business environment, the positive attitude of foreign partners and favorable geographical location are the main advantages of Romania for foreign investors. Thereby, as can be seen above, Romania has registered an upward trend in attracting foreign direct investment. In 2008, Romania attracted investments worth dollars 5924.8 billion placing her an enviable position on the statistics that analyzes foreign direct investment flows in South Eastern Europe.

As expected, the economic crisis has affected the amount of FDI attracted by Romania, in 2009 recorded a drop regard previous year, leading to the 4817.2 billion dollars.

2. Economic Development Regions in Romania

After 1990, Romania shifted its spatial policy from a central-based policy to a regional-based policy, in compliance with EU-standards. According to four criteria (number of inhabitants, surface, cultural identity and functional-spatial relations;) Romania was divided 1998 into eight Development Regions. The eight regions serve as NUTS-II units and as a framework for development policies while the counties serve as NUTS-III units. The NUTS-II units are: **North-East development region** (Bacau County, Botosani County, Iasi County, Neamt County, Suceava County, Vaslui County), **South-East development region** (Braila County, Buzau County, Constanta County, Galati County, Tulcea County, Vrancea County), **South development region** (Arges County, Calarasi County, Dambovita County, Giurgiu County, Ialomita County, Prahova County, Teleorman County), **South-West development region** (Dolj County, Gorj County, Mehedinti County, Olt County, Valcea County), **West development region** (Arad County, Caras Severin County, Hunedoara County, Timis County), **North-West development region** (Bihor County, Bistrita County, Cluj County, Maramures County, Satu Mare County, Salaj County), **Center development region** (Alba County, Brasov County, Covasna County, Harghita County, Mures County, Sibiu County), **Bucharest-Ilfov development region** (Ilfov County, Bucharest).

3. The analyze of the distribution of foreign direct investments on economic development regions

A regional analysis in Romania shows major differences at all levels and in many fields. Among the eight Romanian economic development regions, there are a few which have closer indicators with the level of other countries in EU (especially among New Member States), but still many other far from the requirements of an EU member.

The territorial repartition of the FDI for all activity sectors of the economy puts into evidence some of the trends manifested by the investors in 90s. As result, there are emerging centers of concentration for the foreign investors in those geographical areas and historical provinces with a rich economic and infrastructure potential or with historical traditions in certain activity branches.

Table 4 - FDI in Romania by economic development regions (1990-2009)

Development regions	Investors		Capital		Rural population	Regional population
	Number	%	Mil. \$	%	%	%
Northeast	7281	4.4	1743919.6	5.1	59.5	17.1
Southeast	9653	5.8	2092494.9	6.2	44.8	13.2
South	7713	4.6	2454882.7	7.2	59.5	15.6
Southwest	4441	2.7	1302562.8	3.8	55.8	10.8
West	18665	11.2	2498239.2	7.4	38.4	8.9
Northwest	18617	11.2	2244324.2	6.6	49.9	12.6
Center	17041	10.2	2764922.9	8.2	41.5	11.6
Bucharest-Ilfov	83317	50	18813916.5	55.5	11.3	10.2
Total	166728	100	33915262.8	100	46.7	100

Source: http://www.onrc.ro/statistici/is_septembrie_2010.pdf, www.insse.ro

When we analyze the distribution of the foreign investors taking into consideration the number of the commercial companies (Table 1), we can see that about half (50%) have been founded in Bucharest, which anyhow has the supremacy regarding the value of the invested capital, with almost 55,5%. The second group of regions, on the subsequent place is: the West Region, Northwest Region and Center Region (between 9-12%). The fewest commercial companies were founded in Southwest Region (only 2.7%). If we have in view the value of the investments, after Bucharest is following the Center Region, West Region and South Region. These for regions gather almost 80% of the total FDI in Romania. On the last place is the Southwest Region.

Following these two criteria, we can conclude that the Bucharest Region is concentrating the greatest part of the foreign investments in Romania, the rest (50%) being shared by the other seven regions of economic development, existing a great economic imbalance manifested in all domains of activity. The least attractive region for the foreign investors is Southwest, which is on the last position in function of both criteria. It is in fact one of the poorest regions in Romania, together with the

Northeast Region, with a rural majority and a strong agrarian character (almost 60% from the population is rural). Both regions have 28% from the Romanian population but they cumulate only 4.7% from the total FDI. An exception is the South Region, which has a rural character, over 15% from the Romanian population but high level of investments.

Two important conclusions could be derived from these findings. Firstly, physical and cultural distance remain important in influencing the geographical dynamics of foreign direct investments. Secondly, these regions that were already more developed have attracted more foreign direct investments and more investors. This had contributed significantly to the widening development gap between regions.

Generally, the foreign investors avoided the poorest regions in Romania, the rural environment, preferring the towns or the adjacent areas. The regional distribution of the FDI in Romania is characterized by great inequalities, the one between the Bucharest Region and the other regions being most obvious and the second between rural and urban area.

Conclusion

At the regions level, there are disparities determined by heterogeneous development areas, due to small, mono-industrial towns, strongly affected by the restructuring, reduced economical diversification of some big cities and due to the incapacity of some urban centers of becoming development vectors for adjacent areas. The under-developed regions are those dependant on agriculture, with great rural population where trans-border transport, is little developed, comparing to those in the opposed corner, whose dependence on the primary sector is reduced.

The evolution of foreign direct investment at the regional level had the same trend as the evolution of foreign direct investment in Romania. In recent years there has been registered an upward trend of investment flows to Romania, especially in the followings regions: Bucharest-Ilfov, Center Region, West Region and South Region, which may mean that our country is on up track. Of course, the effects of recession have had an impact on foreign investments, they are decreasing by nearly half compared to the so-called boom that Romania is the record of 2007 and 2008.

An extremely important role in eliminating intra and inter-regional disparities is the help Romania shall receive from the European Community. For the operational programs that benefit from European cofinancing, for the timeframe 2007-2013, Romania shall receive 17,264 Millions Euro from Structural and Cohesion Funds of the European Union. From this amount, 3,275 Millions Euro shall be allocated to the Regional Operational Program destined for the FEDR development, that shall support the financing from national public funds of 549,04 Millions of Euro and national private funds of 28,90 Millions of Euro.

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THE HUMAN RESOURCES MANAGEMENT IN THE CONTEXT OF THE ECONOMIC CRISIS

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Abstract

Crisis periods are creating acute tensioned situations in the relationships between people, not only in the organizations that are in need to stint their activities, but also in institutions that are not so affected by the crisis. This happens because in the new context we can find a lot of apprehensions in the minds of citizens, especially regarding the labor force. In these conditions the Human Resources management is facing difficulties regarding limitation decisions for a part of the personnel.

On the other hand, the economic crisis has also some positive aspects for the Human Resources management because it allows the existence an adequacy filter, a constancy of employees, the reinforcement of discipline in institutions, a growth of productivity, an increase in people's responsibilities and even the attenuation of income pressure. All of these things can be capitalized for the interest of institutions.

At the same time the crisis can be a rupture between the old and the new, it can stimulate creativity, it can determine the reorganization and increase the efficiency of activities, it can lead to an orientation towards new technologies, methods and products highly demanded on the market.

This paper analyzes and estimates the attitudes manifested by Romanian Human Resources managers that are facing the current socio-economic crisis. It shows what people can do to decrease the effects of the crisis and also their perception regarding the manifestation forms of the economic crisis, the changes that are necessary for a good administration of the human resources which would lead to a minimum loss in this area, so that the closure of the crisis should not be accompanied by an absence of human resources.

Keywords: human resources, economic crisis, managerial activities, human relationships, small and average enterprises, economic development

JEL Classification: M12, M50

Introduction

At the end of this decade the economic crisis has burst out and propagated itself with a considerable speed over extended geographical areas, taking an acute form which made some analysts compare it with the 1929-1930 crisis (Krugman, 2009). For Romania, confronting the crisis proved to be a difficult challenge, both for the public sector, for the state, and for the private enterprises. Thus, after a period of relative prosperity between 2000 and 2007 characterized by the GDP increase in annual rates of 4-8%, the constant drop in inflation, acceptable budgetary deficit, low

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foreign debt, a period of serious collapse of macroeconomic indicators followed, accompanied by an equally serious decrease in the population's living standard.

A crisis situation demands crisis management, a process that might lead to a rapid and flexible organizational adaptation to the specific conditions of this period. The enterprises can handle any crises more easily if they adopt a proactive behavior instead of a reactive one.

Human resources management becomes essential in view of the decisions that must take into consideration both the enterprise's interests but also those of its employees. It also has to solve current problems without damaging the long-term interests of the company, to restructure the staff list and reduce salary expenses without losing valuable employees, to act firmly without destroying the trust and loyalty of the employees.

At the same time the crisis situations motivate employees to have more performance, to be more dedicated, to set for themselves ever higher standards in order to keep their job. "There is no need for a boss to threaten with a pay-check cut or with warnings. We have reached the point when we internalize control, it lies in our head. We wish for what we should be.", said Jakob Schrenk in book suggestively called *The Art of Self-Exploitation or the Brave New World of Labor*. (Schrenk 2010, p.9) (Our translation)

For a better understanding of the specific nature of the human resources management during crisis time and in order to see if there is a connection between the crisis' facts and the human resources management strategies, with a direct reference to Bihor County, we have considered useful a short analysis of the crisis' economic effects in this county.

Economic crisis manifestations in Bihor County

According to the European criteria, the classification in terms of size of companies is done regarding the companies' turnover and number of employees. In our study we have included only Human Resources managers of average and big companies, respectively with a number of over 50 employees (but not with a turnover of over 10 million Euros; some of these companies having a number of over 50 employees, but a turnover of under 10 million Euros). From the point of view of the turnover, 86% of the companies from Bihor County have a turnover lesser than 2 million Euros, 2% of them between 2 and 10 million Euros, 3% of them between 10 and 15 million Euros and 1% of over 50 million Euros. This situation is similar to the one on the national level and even on the European level where likewise, the percentage of big companies is under 5%.

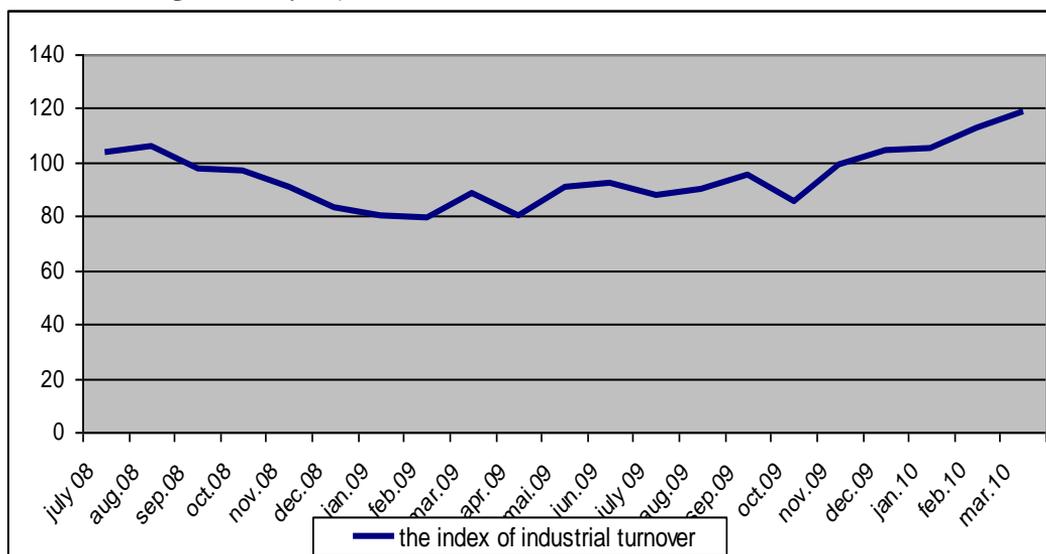
Regarding the number of employees, 89.1% of the companies are small or very small (under 50 employees), followed by the average ones with 50-249 employees (7.9%) and only 3% are big companies with over 250 employees.

According to the data provided by the Bihor County Statistics Office (DJS Bihor), in our county the crisis has manifested itself since October 2008, the most important signs being connected to a decrease in the production size on the

background of a lower domestic and international demand, to the increase in unemployment rate and that of the number of unemployed people, to the volume drop of international trade, to the decrease of the interest for the purchase of homes.

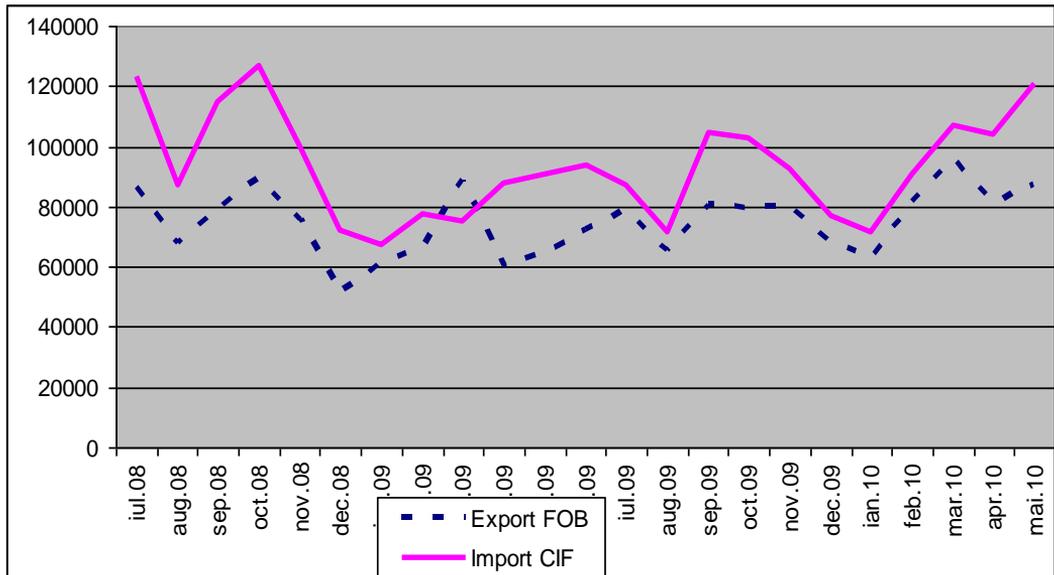
Analyzing the evolution of the industrial production index (the percentage increase of the volume of industrial production compared to the same month of the previous year) between July 2008 and March 2010 we notice that there is no linear decreasing evolution, but there are periods, be it intermittent, when this index is situated above the level from the beginning of the crisis. The explanation could rely on the very structure of industrial production, some branches having more orders towards the end of the year (the textile industry, the shoe manufacturing, the food industry), all of them being well represented in Bihor County.

Graph 1: The index of industrial production (in % compared to the same month of the previous year)



Source: The monthly statistic report of DJS Bihor

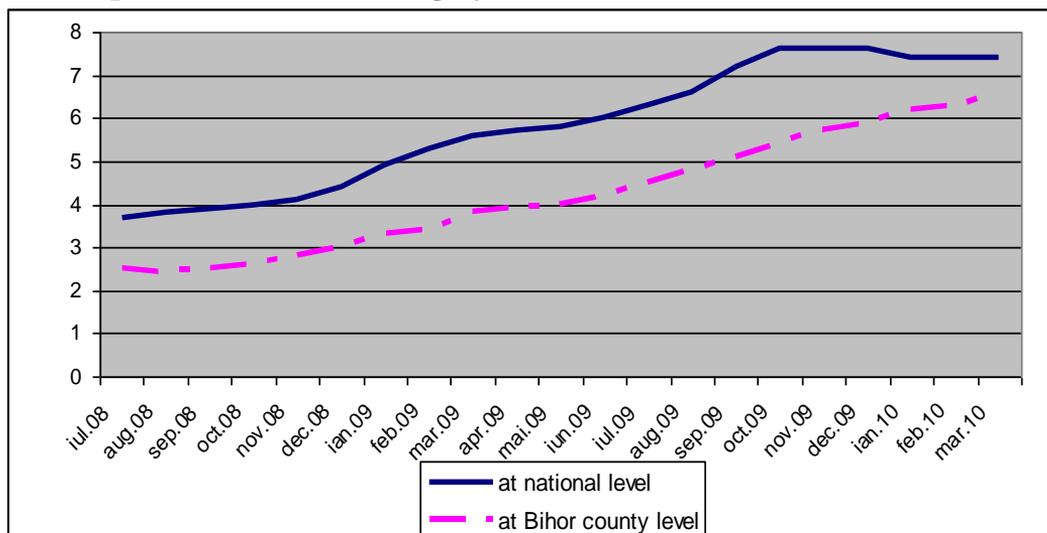
Regarding the value index of the industrial turnover on the domestic and international market, one can notice in exchange a constant decline starting with September 2008, as well as a straightening out towards the end of 2009; possibly due to the companies from Bihor that manufacture spare parts for the car industry, the activity of which improved considerably, mirroring the increase in the sales volume of Romanian cars on the domestic and international market.

Graph 2: Foreign trade (in thousands euro)

Source: The monthly statistic report of DJS Bihor

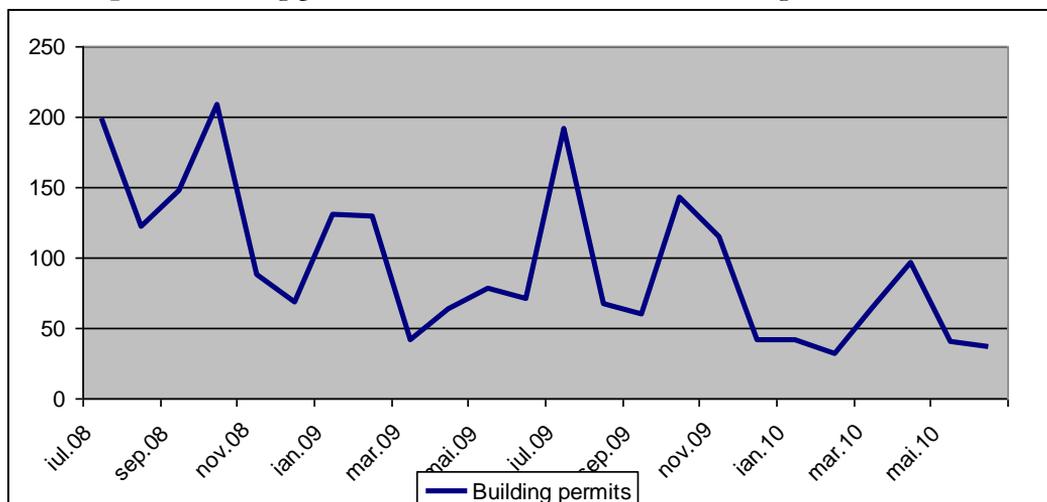
Within the foreign trade, one notices a decrease both in exports as a follow-up of the reduction in demand on the international market, as well as of an even more acute reduction of imports as a consequence of reduction in demand on the domestic market, starting with November 2008; despite the fact that this month marks the start of the holiday season. At the beginning of 2009, both the exports and the imports straightened, reaching a level close to the situation considered to be the beginning of the crisis in Bihor County. Analyzing the graph regarding the evolution of the foreign trade, we notice a desirable situation, unfortunately a short-lived one, February 2009, when the balance of the trade is positive. Since this is not a trend, we can assume that this situation was generated by random factors. For Bihor County and especially for Oradea, characterized by an intense trade activity, these evolutions have influenced the degree of man power employment, respectively the evolution of the unemployment rate.

The unemployment rate, one of the lowest in the country, has started growing since October 2008. As it can be observed also in the graph below, it mirrors the national unemployment rate, yet being at a difference of one percentage point.

Graph 3: The recorded unemployment rate

Source: The monthly statistic report of DJS Bihor, INS, 2010

On the background of a decreasing tendency, the interest for the building of residences has constantly dropped, while especially in Oradea whole residential blocks cannot find a buyer, which determines the sharp decrease in home prices. We can assume that the ones who demand building permits are especially natural persons from the upper classes who have savings that would allow them to build houses even in times of crises, or workers coming from abroad (or who continue to work abroad) and who invest their income in houses.

Graph 4: Building permits released for residential buildings:

Source: The monthly statistic report of DJS Bihor

These few analyzed indicators show the crisis situation in which the economy from Bihor County continues to be and implicitly the need for appropriate measures, including the ones taken by the Human Resources management.

The Human Resources managers facing the economic crisis: perceptions, attitudes, actions

In the context of economic crisis the Human Resources manager's situation is a delicate one, he/she being in between the two sides – between employers and employees, each of them expecting measures that would be if not favorable to them, than at least tolerable for them. This individual is facing new situations and duties like: conflict management, the improvement of the social climate, the improvement of communication, overcoming the employees' despondency and other situations rising from the particular situation of each company.

The restructuring of activity also demands personnel reduction which asks for great responsibility decisions on behalf of the Human Resources managers, since they have to equally meet the crisis situation and the enterprise's and the employees' long-term strategies. Even if the reactions of the Human Resources manager seem limited, in fact they are numerous, especially if this one would not neglect the employees' interests. The dismissals, the technical unemployment, the part-time, the wage cut, the flexible working hours, all represent options that can be used according to the market's and each company's particular situation, in order to overcome the effects generated by the crisis.

Based on daily experience, so without a rigorous research, the wage cut proves to be the most difficult measure that employees can handle, probably not only because this influences the life standard negatively, but also because they perceive this measure as a sign of their work's devaluation. As a consequence, it is possible to lose many valuable employees who would find an employer who would value their work. In this context, the reduction of personnel expenses often takes the form of reduction or even renouncing to elements from the wages packet, others than the basic pay (incentives, rises, etc.). If the wage cut is inevitable (especially when the state exerts a financial pressure), it must be correlated with the reduction of the working time, or by rendering the schedule flexible. However, it is advisable that this be the last measure to be taken.

Regardless of the nature of the crisis, some of the most damaging reactions are those of panic, those regarding hasty decisions and measures; often with uncontrollable effects. The management of a crisis is the privilege of those who have anticipated, simulated or even undergone a similar situation, which gives them a more realistic analysis of the situation, the formulation of alternative solutions, a correct decision, calm behavior, and assertive communication, which induce to the employees a positive state of mind.

In *Karaoke Capitalism. Management for Humankind*, (Our translation) Jonas Ridderstrale and Kjell Nordstrom suggest that acquiring good practices from a similar organization may at best lead to average results and that creativity is the one that pushes the head of an enterprise to the top in his/her area of activity: "Benchmarking

and good commercial practices will push you only to the middle of the classification. Do not imitate, innovate” urge the authors. (Ridderstrale, Nordstrom 2007, 15) (Our translation) We believe that even more in this crisis period the creative solutions are the best ones; solutions that will stimulate the employees, will develop their professional activities and assure economic performance.

The study we carried out, has attempted to identify the way in which the current economic crisis is perceived by the Human Resources managers from Bihor County, the attitudes and the measures they have adopted to face or to overcome the crisis situation.

The objectives of the research paper

1. To identify the top three, most important measures which the Human Resources managers have used during the current economic crisis.
2. The assessment within the context of the economic crisis of the importance given by the Human Resources managers to some management functions: professional training, motivation, assessment and communication.
3. Underlining the way Human Resources managers react to the crisis: reactively or proactively.

The methods used in the research

In order to reach these objectives, we have applied an interview to the managers of small and average companies which have a Human Resources department. The managers were asked to answer a series of questions connected to the enterprise’s policy regarding human resources and personnel policy, but also some questions regarding the strategies that their companies have adopted to overcome the difficult moments brought by the economic crisis. The selection criterion for the subjects was represented exclusively by their interest in the improvement of the Human Resources activity; an interest measured by their presence and the activity within the Human Resources Association from Bihor County. Most of the questions from the interview list were open questions, giving the respondents the possibility to openly develop their ideas and opinions regarding our subject.

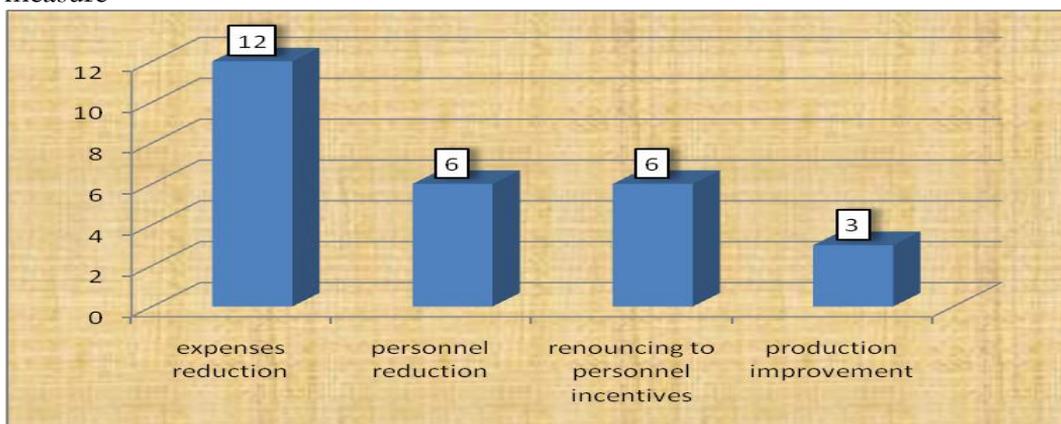
From the point of view of the methods used, the data obtained from this open interview can be used as guiding lines. Our design was to show some tendencies connected to the personnel policy and strategies, the measures taken to counteract the negative effects generated by the economic crisis and the managers’ perceptions towards the strategies that are needed to overcome these negative effects. The interviews were applied on the 12th of June 2010, by 27 operators, during the Human Resources Association meeting to all the 27 participants, actively present to all the association’s meetings. Our option for interviewing the 27 Human Resources managers was motivated by their constant interest for identifying the measures needed for a growth in efficiency regarding the human resources activity; either by adopting good practices, or by learning about and understanding the new theories in this domain. All these aspects were accessible to them within the association’s meetings. We have considered that the 27 managers were also the best informed ones about the issue of the economic crisis and the necessity to adopt specific measures within the area of human resources; so that their answers can be considered relevant for our study.

Due to the low number of those interviewed, we did not consider their socio-demographic data to be particularly relevant.

The results

1. To the question regarding “the three most important measures that needed be taken in the context of the financial-economic crisis in your enterprise”, the first place was taken according to 14 subjects by the expenses’ reduction with a clearly superior score of almost 50%, followed by the renunciation to some forms of personnel incentives and also personnel reduction, on the last place coming production improvement measures. The respondents also mentioned other measures like: pay renegotiations, technical unemployment; but all these had insignificant percentages.

Graph 5: The frequency of answers regarding the most important anti-crisis measure



The first two measures can be merged because renouncing to some personnel incentives can also lead to expenses reduction; the respondents have classified this as a distinctive measure probably because they wanted to make a distinction between material expenses and pay expenses. In such circumstances, we can say that the Human Resources managers’ option was for the material expenses reduction as a first measure in times of crisis.

Considering that all the respondents have a Human Resources specialized training and are members of the Human Resources Association from Oradea, we can easily understand their way of thinking and acting, including the fact that dismissals do not represent their first option based on the management theories according to which renouncing to valuable employees ultimately leads to a considerable loss in training and personnel integration costs. (Certo, 2002)

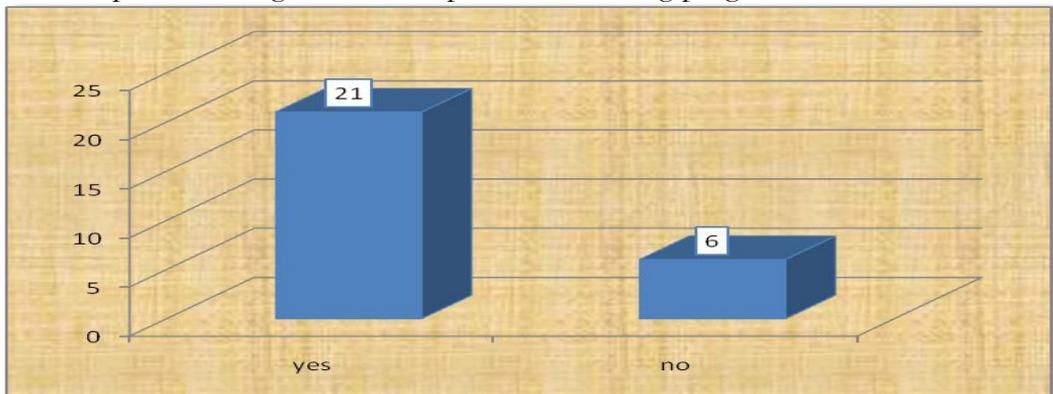
Taking into account the evolution of economic indicators in Bihor County during the economic crisis, one would have expected to see that the dismissal of a good part of personnel represented one of the most frequently adopted measures within the filed of Human Resources. The fact that this is not the first mentioned

measure may be due to the fact that many unemployed people from Bihor County come from small and average companies which were not represented by the subjects we interviewed. They probably do not have a Human Resources department and therefore a member in this association we had mentioned. On the other hand, the fact that the measures regarding production, its stimulation and adjustment to the economic crisis conditions come only third on the option list of the Human Resources managers, indicate a lower training level within the economic domain. The economic crisis theory underlines the need for measures stimulating consumption adopted both by the state and by private companies, accompanied by production restructuring measures in order to meet the new market demands. (Keynes, 2009; Krugman, 2009)

At the same time we can interpret this attitude of the Human Resources managers from the point of view of the fact that measures concerning production are considered to be the privilege of the general, technical or economic manager, which makes them be perceived as less reliable *business partners* by the top management. On the other hand, improving production means a better organization, a duties' redistribution, a professional reemployment, all being connected to the Human Resources department and demanding from the Human resources manager vision, forestalling, easiness in conducting business. (Thevenet at al., 2009)

2. The management functions are considered to be very important within the context of the economic crisis. Thus, in most cases, there are professional training courses of a longer or shorter duration taking place during the crisis; in two thirds of the cases they are totally or partially paid by the company. This is a proof that the expenses' reduction targets less the training activity, since it can become essential during the crisis.

Graph 6. The degree in which personnel training programs are used



From all the respondents, as shown in graph 6, 21 of them have organized different programs for personnel training. There are several causes of this concern about the personnel. On the one hand they can be motivated by the desire to improve and render more efficient the company's activities; on the other hand the

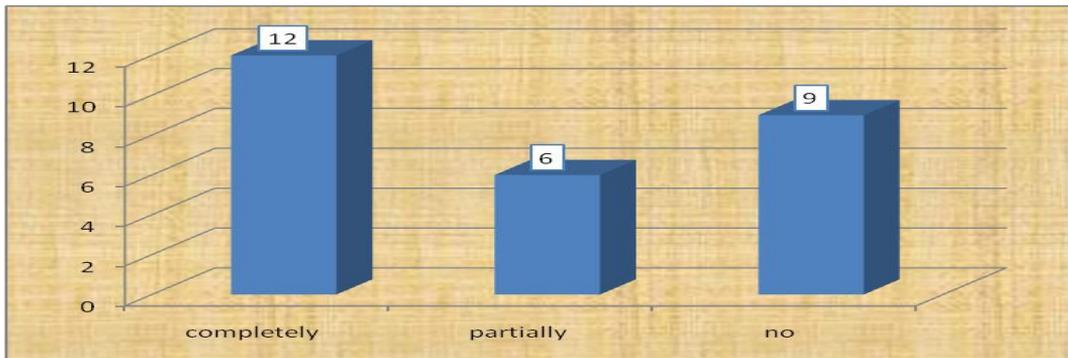
image of the institution also demands that such programs be adopted. Likewise, the training programs can be good occasions to homogenize workers' groups and to establish better relationships between employees. At the same time, they can enhance the personnel's trust in their own abilities and cultivate their positive identity regarding the institution. This positive perspective contributes along other factors to the employees' job stability, respectively "to finding more quickly a better job in case of dismissal" as one of the respondents put it. (P. A.)

Among all the training programs, a distinction was made between those of longer and shorter duration. We can notice in table 1 that there are more short duration programs, probably because of their lower cost and the easiness of their organizing, compared to the long duration programs. Likewise, we must mention that out of a total of 27 respondents, only 6 of them have resorted to both types of personnel training. There are also 6 respondents who do not use any kind of training programs.

Table 1. Personnel Training Programs

Short term training programs		Long term training programs	
2-3 days training	3	abilities' development training	3
abilities' development	9	products knowledge for customer sale	3
external training	3	permanent training	6
total	15	total	12

Graph 7 The degree to which the training courses are paid from the companies' own resources



The third graph shows the way in which the personnel training courses are paid for. Thus we notice that 18 respondents use their own resources to organize and carry on these activities while 9 have external resources.

More than half of those interviewed consider that employee motivation is not only possible but also necessary during a time of crisis, mentioning that "it has to take non-financial forms like reinforcing team spirit and acknowledging results". (M. S.)

The assessment process continues to be part of the Human Resources

department's activities, being employed in the process of assuring the coherence between the priorities of the Human Resources department and those of the company. Some of the respondents mention that they use "new assessment grids which underline better the employees' abilities, which they can also use in the case of dismissals." (M. V.)

Table 2. Personnel assessment indicators

	Frequency
assessment records and questionnaires	3
target completion	6
productivity indicators	9
customer satisfaction	3
none	6
total	27

Real, targeted, crisis specific communication, especially the internal one is according to the respondents really useful in minimizing the damage produced by the crisis' effects on the level of physiological comfort, of the employees' job safety. It can also be a starting point to overcome malfunctions and to resume production at the level it was before the crisis. One of the respondents states that "there is communication, the employees' opinions are taken into account, there is transparency, the employees are aware of the financial situation of the company" (C.L.)

3. Making a comparison between the results concerning anti-crisis measures and those regarding the importance given to managerial functions during the crisis, especially the one about personnel motivation, one can conclude that most interviewed managers have a proactive behavior. This means that the measures they take are not circumstantial, that the essential activities also take place despite the crisis, that there is an overall vision for the company in many contexts, including the economic crisis one.

Table 3. The correlation of anti-crisis measures with the personnel motivation measures

		the most important anti-crisis measure				total
personnel motivation special measures to exit the crisis		personnel reduction	expenses reduction	giving up personnel incentives	production improvement	
	job safety		3			3
	a good communication with the personnel	3		3	3	9
	reinforcing team spirit			3		3
total		3	3	6	3	15

One can notice that all those who reduce expenses as an anti-crisis measure are stressing job safety when it comes to motivating the personnel; a reasonable attitude maybe also because keeping the job renders expenses reduction, especially the material ones, more tolerable. In exchange, real communication during the crisis is considered to be important when it comes to personnel reduction, to renouncing to some forms of personnel motivation, as well as in the case of production improvement. If in the first two cases, a good communication can prevent possible discontents, relationship tensions between employers and employees; in the case of production improvement the quality of the communication can be an important means of rapid change to meet the new market demands.

It is surprising the fact that reinforcing team spirit is not considered to be a motivation form. Renouncing to some forms of personnel motivation is strongly correlated with reinforcing team spirit, probably as a form of compensation for the loss of some previous privileges. Using team spirit can become motivating; the employees sensing the fairness of anti-crisis measures that affect everybody, not only some of them.

Conclusions

The current economic context strongly influenced by the economic crisis induces among the employees uncertainty, tensions, lack of motivation, fear, especially concerning the probability of job loss and implicitly, that of income reduction. In these circumstances, Human Resources management proves to be vital, both for the management of the current situation by becoming adapted to the crisis induced conditions, but also in view of the post-crisis perspective characterized by the resuming of the economic growth where the Human Resources manager would play a strategic role in the enterprise, being increasingly perceived as a *business partner*. (Ulrich, 1999)

The research we have carried out underlines the fact that Human Resources managers from Bihor County are concerned by establishing short-term measures, by reducing expenses as well as by preparing conditions for resuming the production to the levels previous to the crisis. Thus, they value the management's functions: planning, training, motivating, communicating with, assessing the human resources, so that the economic crisis would not generate a break-up within the enterprise which might be hard to recover from after the crisis.

Likewise, it was stressed the fact that almost half of the interviewed managers resort to a management policy oriented towards protecting the personnel. These are also those that strongly invest in the employees' training and education (graph 6, 7). This institutional development policy oriented towards programs and strategies meant to develop skills and abilities is possibly considered to be a valid step towards institutional development. Thus one can make optimistic predictions connected to the institution's adjustment to the new conditions of the regional economic climate.

Compared to the situation of the personnel training programs, one can notice a similar interest towards the employees' abilities. Thus, in graph 6 we notice that 21 of

the respondents organize personnel training programs and courses. Table 2 suggests that 21 respondents use personnel assessment indicators. This correlation can be explained by the fact that usually, personnel training programs end with assessment tests regarding the acquired knowledge and abilities. But beyond that, the equivalence of the two values confirms the consistency of the subjects' answers.

We also have to mention that the data from table 3 regarding the anti-crisis measures presentation according to the personnel motivation measures show a strong consistency of professional representations about the leadership and management activity. Thus it can be noted that all managers who had decided to offer job safety consider that the most efficient anti-crisis measure is expenses reduction. Likewise, one can see that according to 3 of the interviewed Human Resources managers, "team spirit" might refer to a kind of understanding shown by employees and their acceptance when it comes to giving up various incentives they used to have before the crisis. 9 managers consider that the most efficient measure in their relationship with the personnel is a good communication. But they also rely on a larger spectrum of measures such as: personnel reduction, renouncing to bonuses and incentives, as well as a better assessment of the employees.

One notices a certain discrepancy between the facts which show an increase in unemployment rate and the options of the Human Resources managers which go preponderantly towards other anti-crisis measures than personnel reduction. We believe that the explanation might reside in the fact that the respondents represent a small percentage of the companies from Bihor (the 11% of the already mentioned average and big companies), while unemployment characterizes all the companies, maybe even in a higher degree small companies. On the other hand, it is possible that some of the respondents had formulated what they had assumed to be the expected answers instead of the real ones, taking into account the setting and the context in which the research instrument was applied (prior to a meeting of the association where exactly the impact of the economic crisis on the human resources management was debated).

Despite the obvious concern of Human Resources managers to better meet the crisis demands, from their answers one can also notice a certain discontent connected to the fact that they are perceived as the ones who put into practice a decision rather than taking it. Meanwhile, they feel a considerable pressure coming from people's expectations for them to take rapid measures of expenses reductions when it comes to the personnel, at the same time with the employees' hopes for finding measures that would not affect them in a too serious measure.

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MANAGERIAL STRATEGIES CONCERNING THE WAGE POLITICS IN THE MEDICAL-SANITARY INSTITUTIONS

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Abstract

It is well known that nowadays the evolution of the payroll in the sanitary organisms is in opposition with the insufficiency of the resources of these institutions. As a result, the prevision of the payroll due to a year in report with another one, must be made depending on a complex analysis, based both on the situation of the environment and on the objectives established in dependence with the existent constraints and on the anticipated results which, measuring the degree of realization of the different decisions, will allow the alternative comparisons and the selection of the most satisfying. The paper analyzes the evolution of this payroll taking into account the increase of the general wages which apply to all employees; the increases of the individual wages (merits or promotions) and the stuff movement materialized in stuff inputs (employments) and stuff outputs (departures, resignations, etc.)

Keywords: salary policy, mass effect, fluctuations

JEL classification: M12, M41, I19

1. Wage table as a strategic element of salary policy the general calculation principle

The calculation basis of a wage table is founded on an exhaustive survey of the salary elements established from the month of December of the year prior to the projection. Therefore, we shall bear in mind the ensemble of inflexible elements of the remuneration – the base pay, the length of service bonuses, etc.

This wage table called “basic” evolves depending on more parameters, related to social politics (general or individual wage increases) or to the evolution of the workforce (the fluctuation of personnel).

Generally, the personnel fluctuations can be illustrated according to the following scheme:

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			(area 3)
Personnel departed during the year			
	(area 2)		
	Stable personnel		
	(area 1)		
			Recruited personnel
			(area 4)

Time (months of the year) →

According to the diagram above, there are two possible calculation methods of the wage table:

$$\text{wage table year N} = \text{wage table of the stable personnel (area 1)} + \text{wage table of the departed personnel (area 2)} + \text{wage table of the recruited personnel (area 4)}$$

or:

$$\text{wage table year N} = \text{wage table of the staff present at 1 of January (area 1, 2 and 3)} - \text{unpaid salaries of the departed personnel (area 3)} + \text{wage table of the recruited personnel (area 4)}$$

2. Practical application regarding the wage table in medical institutions

Example. The workforce in an ALFA hospital for the year N is rendered in the chart below:

Specifications	Personnel	Annual gross salaries	Gross salaries for December
<i>Management</i>	4	1.500.000	30.000
<i>Nurses</i>	300	50.000.000	15.000
<i>Medical assistants</i>	60	8.000.000	12.000
<i>Doctors</i>	40	7.500.000	13.000

The wage agreement for the following year N+1 comprises:

(1) Uniform increase of salaries, without any socio-professional differentiations: 1.5 % on April 1st and 2% on October 1st.

(2) Individual salary raises: represent 0.80 % of the wage table of December, year N, being given on 1st of July of the year N+1. These increases shall not be

granted to the personnel before permanently leaving the institution, neither to the staff recruited during the year.

(3) Two medical assistants (gross wage in December = 12.500) will be promoted to resident doctors on April 1st (predicted salaries – 14.500); these two staff members will not be granted the general salary increase programmed for April.

Personnel outflow and inflow table, predicted for the year N+1 is present as it follows:

<i>Categories</i>	<i>Month of departure from the hospital (end of the month)</i>	<i>Gross salary for December, N</i>	<i>Recruitment month (beginning of the month)</i>	<i>Predicted gross salary</i>
<i>Medical assistant</i>	<i>August</i>	<i>14,000</i>	<i>May</i>	<i>9,500</i>

<i>Categories</i>	<i>Month of departure from the hospital (end of the month)</i>	<i>Gross salary for December, N</i>	<i>Recruitment month (beginning of the month)</i>	<i>Predicted gross salary</i>
<i>Medical assistant</i>	<i>December</i>	<i>15,000</i>	-	
<i>Doctor</i>	<i>August</i>	<i>15,900</i>	-	
<i>Doctor</i>	<i>December</i>	<i>15,000</i>	-	
<i>Nurse</i>	<i>September</i>	<i>19,000</i>	<i>August</i>	<i>12,500</i>
<i>Nurse</i>			<i>December</i>	<i>13,000</i>

In order to obtain the wage table for the year N+1, we shall calculate successively:

(1) The wage table of the permanent personnel, which implies establishing the staff expected for the year N+1, taking into consideration personnel fluctuations, highlighting the stable workforce. This predicament of the wage table take into account the all the increases considered for the following year.

At the end of the year N+1, the personnel, grouped in categories, will be:

<i>Categories</i>	<i>Staff year N</i>	<i>Departures year N+1</i>	<i>Permanent staff N+1</i>	<i>Inflows N+1</i>	<i>Staff year N+1</i>
Management	4		4		4
Nurses	300	1 (September)	299	4 (August, December and 2 promotions)	303
Medical assistants	60	4 (August, December and 2 promotions)	56	1 (May)	57
Categories	Staff year N	Departures year N+1	Permanent staff N+1	Inflows N+1	Staff year N+1
Doctors	40	2 (August, December)	38		38
Total	404	7	397	5	402

For the calculation of the index we consider that for the year of December, N, the basis is 100.

Since the increases are successive, it is necessary to study the influence in time, taking into consideration the fact that they can be of different natures, respectively:

(1) general increases have a multiplicative nature, meaning that they are applied cumulatively for either of the categories.

(2) individual pay raises are characterized as being additive, which means that they are globally added to the wage table.

The calculation of the multiplicative index for the permanent staff is as it follows:

<i>Period</i>	<i>No. of month</i>	<i>Way of calculation</i>	<i>index</i>	<i>Total</i>
Jan, Feb, March	3		100	$300 = 3 \times 100$
April, May, June, July	4	$100 \times 1,015 = 101,5$	101,5	$406 = 101,5 \times 4$
August and September	2	$101,5 + 0,8 = 102,3$	102,3	$204,6 = 102,3 \times 2$
Oct, Nov, Dec.	3	$102,3 \times 1,02 = 104,35$	104,35	$313,05 = 104,35 \times 3$
The value of the multiplicative index				1.223,65
Multiplication coefficient				12,2365

The calculation of the wage table for the permanent staff:

<i>Categories</i>	<i>Permanent staff</i>	<i>Salaries for December, N</i>	<i>Multiplicative coefficient</i>	<i>Wage table</i>
0	1	2	3	$4 = 1 \times 2 \times 3$
Management	4	30.000	12,2365	1.468.380
Nurses	299	15.000	12,2365	54.880.703
Medical assistant	56	12.000	12,2365	8.222.928
Doctor	38	13.000	12,2365	6.044.831
Total	397			70.616.842

(2) The influence of personnel fluctuation.

(2.1.) the influence of the outflow: the wage table paid to the departed personnel.

<i>Categories</i>	<i>Month of the departure (end)</i>	<i>The duration of remuneration (months)</i>	<i>No. of months of pay with index⁽¹⁾</i>			<i>Salary for December N</i>	<i>Coefficient⁽³⁾</i>	<i>Total</i>
			<i>3</i>	<i>4</i>	<i>5</i>			
0	1	2	3	4	5	6	7	$8 = 6 \times 7$
			100	101,5	103,53			
Medical assistant	Aug	8	3	5		14.800	8,075	119.510
Medical assistant	Dec	12	3	6	3	15.500	12,1959	189.036,45

122 *Managerial Strategies Concerning the Wage Politics in the Medical-Sanitary Institutions*

0	1	2	3	4	5	6	7	8 = 6×7	
Promoted medical assistant	March	6 ⁽²⁾	6			12.500	6	75.000	
		26	Subtotal workers					383.546,45	
Doctor	Aug	8	3	5		15.900	8,075	128.392,5	
Doctor	Dec	12	3	6	3	15.000	12,1959	182.938,5	
		20	Subtotal office workers					311.331	
Nurse	Sept	9	3	6		19.000	9,09	172.710	
		9	Subtotal technicians					172.710	
Duration of remuneration	of	55	Total general						867.587,45

⁽¹⁾ the index of 100 is afferent to the months of January, February, March, the index of 101.5 is applied from 1st of April to 30th of September, the index of 103.53 expresses the value of salaries starting from 1st of October, taking into consideration the multiplication rate: $1.02 \times 101.5 = 103.53$

⁽²⁾ There are two promoted medical assistants: this piece of information is taken into account through the intermediary of the number of months: 2 medical assistants × 3 luni = 6

$$\text{⁽³⁾ } 8,075 = (3 \times 100) + (5 \times 101,5) / 100$$

$$12,1959 = (3 \times 100) + (6 \times 101,5) + (3 \times 103,53) / 100$$

$$6 = (6 \times 100) / 100$$

$$9,09 = (3 \times 100) + (6 \times 101,5) / 100$$

(2.2.) the influence of incoming personnel: the wage table paid to the recruited staff.

Categories	Month of recruitment (beginning)	Duration of remuneration (months)	No. of months of pay with index ⁽¹⁾			Employment salary	Coefficient ⁽³⁾	Total	
0	1	2	3	4	5	6	7	8 = 6×7	
			100	101,5	103,53				
Medical assistants	Mai	8	5		3	9.500	8,1059	77.006,05	
		8	Subtotal assistants					77.006,05	
Promoted nurses	Apr	18 ⁽²⁾	12		6	14.500	18,2118	264.071,1	
Nurses	Aug	5	2		3	12.500	5,1059	63.823,75	
Nurses	Dec	1	1		0	13.000	1	13.000	
		24	Subtotal nurses					340.894,85	
Duration of remuneration		32	Total						417.900,9

⁽¹⁾ The index 100 refers to each member of staff in the first months of employment before being granted the general pay raise: only the employees recruited before 1st of April can benefit from the planned general pay raises.

⁽²⁾ there are two promoted workers, this piece of information being taken into account depending on the number of months, meaning: April – December : $2 \times 9 = 18$.

$$8,1059 = (5 \times 100) + (3 \times 103,53) / 100$$

$$18,2118 = (12 \times 100) + (6 \times 103,53) / 100$$

$$5,1059 = (2 \times 100) + (3 \times 103,53) / 100$$

$$1 = (1 \times 100) / 100$$

All the data above can be reorganized synthetically in the table below:

Wage table for the year N+1:

Categories	Permanent staff		Departures		Incomings		Wage table N+1
	staff/year	Sum	staff/month	Sum	Staff/month	Sum	
Management	4	1.468.380	-	-	-	-	1.468.380
Nurses	299	54.880.709	9	172.710	24	340.894,85	55.394.314
Medical assistants	56	8.222.928	26	383.546,45	8	77.006,05	8.683.480,5
Medici	38	6.044.831	12	311.331	0	0	6.356.162
Total	397	70.616.843	47	867.587,45	32	417.900,9	71.902.336,35

For the calculation of the wage table for the year N+1, the next formula is applied:

$$\text{wage table year N} = \text{Wage table of the permanent staff (area 1)} + \text{Wage table of the departed staff (area 2)} + \text{Wage table of the incoming staff (area 4)}$$

For instance, for the category of medical assistants, the wage table for the year N+1 is: $8.222.928 + 383.546,45 + 77.006,05 = 8.683.480,5$

This prediction of the wage table takes into account all the increases throughout the following year.

3. Developments regarding wage policy

Interesting aspects related to the consequences of a decision regarding wage policy consist in the calculation of several indexes, which are:

(1) Evolution in level or the level effect represents the rapport between the monthly wage of an employee or of a category of employees, of two given periods, for the same level of qualification. Generally, it is calculated based on the salaries of December, according to the following formula:

$$\text{Evolution in level} = \frac{\text{Salary December N + 1}}{\text{Salary December N}}$$

Example: taking into account the previous data, in order to simplify, we consider that the management personnel is stable for 2 years.

Average wage of December = 30,000 RON

Average wage for December N+1 must be reconstituted taking into consideration the pay raises predicted for N+1 = $[N+1 = [(30.000 \times 1,015) + (30.000 \times 0,008)] \times 1,02 = 31.304$

$$\text{Evolution in level} = \frac{31.304}{30.000} = 1.0434$$

The evolution in level represents the multiplicative coefficient that is applied to the salary of December N (base 100) in order to establish the salary of December N+1.

(2) Mass evolution or the mass effect represents the variation of the annual wage table for a simulation year, in rapport with a constant wage table.

$$\text{Mass evolution} = \frac{\text{Annual wages (year N + 1)}}{\text{Annual wages (year N)}}$$

Example. We consider, for illustration, the management personnel

$$\text{Mass evolution} = \frac{1.468.380}{1.500.000} = 0.97892$$

The mass effect, compared with the level effect, highlights the impact of time, since it integrates in its way of calculation, the pay raise calendar.

In the example above, the increases have been successive and distributed in time, as it follows: 1.5% in April and 0.8% in October for general pay raises, and 0.8% in July for individual increases, and their impact refers only to certain months of the year N+1.

Therefore, for the same increase in level, the mass effect depends on the date when the pay raises are offered. For the same increase in level, a bigger increase is belated and the pulse of the mass effect is weaker. The equality of the two effects is explained by the fact that that increase was offered on January 1st.

Hence, this index is perceived as being strategic, being rarely communicated, since it measures the real cost that is underwent by the company and that constitutes the basis for wage policy.

(3) The report effect represents the evolution of the wage table of a simulated year, taking into account the increases attributed throughout the previous year. The calculation relationship is based on the formula:

The monthly salary of December N x 12 monthsThe Annual salary (year N)

This effect underlines the fact that the wage table of the year N+1 will be increased, only on the basis of the pay raise measurements of the year N, irrespective of the wage measures of the year N+1, perspective from which the expression of the numerator represents the limit wage table.

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**NATIONAL HOUSING POLICIES IN ROMANIA
BETWEEN 1990 AND 2010**

Ion Radu Zilișteanu*

Abstract

The development of National Housing Policies had a difficult journey and places Romania among the countries of Central and Eastern Europe with the least effective policies in this field. The outcome, in the spring of 2009, of “First Home” program represented the top element of National Housing policies. This article is a critical analysis of Romanian National Housing Policies between 1990 and 2010.

Keywords: mortgage loan; Real Estate market; National Housing Policies.

JEL Classification: G21, R28.

1. Introduction

National Housing Policies are public economic and social policies for any country. Governments pay particular attention to such policies and spend huge amounts of money of national budgets to ensure and improve housing conditions for the population. This is true even for most advanced countries. In communist regimes, the state had a crucial role in building and providing housing. After the economic transformation began in 1990, governments in transition countries have relinquished these duties. They now seek to formulate policies in accordance with the principles of building a market economy, essentially similar to the practice of developed countries.

2. Literature Review

Unfortunately, the Romanian literature on this subject is very low represented, as the National Housing Policies were not declared in this way by the Romanian authorities. The sporadic measures that can be included in this concept were not characterized as a part of National Housing Policies. But the literature from other Central and Eastern European countries is richer.

3. National Housing Policies in Central and Eastern Europe

Policies of the transition economies differ, varying in accordance with their historical, geographical, social and economic features.

First, to offset the decline of public new housing supply, the governments of these countries began to promote new buildings developed by private entities. Thus, various incentives have been applied for this purpose, including subsidies and preferential tax treatments. In addition, some countries like the Czech Republic

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began to pay attention to the existing housing stock by creating incentives for renovation and improvement of houses.

Secondly, the authorities began to focus their responsibility in this area by helping low-income people and young families under adopted social policy. In this context, some countries such as Poland began to build public housing for subsidized rental.

Thirdly, governments in transition countries made serious efforts to build a system of market-oriented housing finance, enabling purchase of houses through market transactions. With the abandon of government's responsibility to provide public housing, they shall provide free trading of properties. In addition to encouraging the building, governments have to create creditworthy demand through appropriate financial arrangements. The lack of a coherent system of real estate financing is the main cause of lack of liquidity of real estate markets in transition economies.

An important objective of creating a coherent real estate financing mechanism is relieving the burden of state budgets expenditure that governments would have as the only responsible for providing public housing. However, significant budgetary allocations were needed to support the creation of housing finance system. In this perspective, strategies aimed at providing a framework for housing provision to be made on a commercial basis and provide the necessary support of the less favored to adequate housing conditions.

4. National Housing Policies in Romania after 1990

After the political changes of December 1989, in Romania and in other countries in the region, there have been profound changes. The first measure taken was the sale of residential housing area to tenants for low price. The decision was taken mainly to ease the state and local budgets with the burden of maintenance and repair of housing, especially those in apartment blocks. Given the age and poor condition of these homes, the burden of the budget was extremely high.

4.1. National Housing Agency

Romania has never conceived in the period after 1990 a comprehensive set of integrated National Housing Policies.

In the law nr.152/1998 was established National Housing Agency (NHA), which began to function effectively in 1999, the same year when the first mortgage loan law was adopted. NHA was established with the aim of developing national housing construction and mortgage loans, as the main form of financing the acquisition, renovation and construction of housing. Initially, the NHA has started with funds of about 5 million USD, insufficient for any coherent initiative in the field of housing. National Housing Agency has received major competitive advantage over private developers, receiving for free public owned land from local authorities and viability public works of infrastructure, these benefits resulting in a climate of unfair competition against other players on market. NHA can be compared with the

position of the National Savings Bank on banking market, which made unfair competition to other banks in Romania, the only bank to have guaranteed the deposits of the public by the state. As a result of small funds, NHA projects favored corruption, given the low prices they practiced for housing compared to competitors and reduced the number of housing units that it has delivered. Thus, instead of delivering the housing to young people, in many cases the beneficiaries were politicians and businessmen.

Following the latest amendments to the law establishing the NHA, it has the following tasks:

- Achieving financial arrangements;
- Attracting and managing financial resources for construction, purchase, rehabilitation, strengthening and expansion of housing, including those operated under a lease;
- Promotion and development on youth housing construction for rental, building social and necessity housing, the construction of other residential property owned by state or local councils, and assistance on existing buildings in implementing the measures set by government programs;
- Acquisition of land for construction of housing and, where appropriate, monitoring programs for carrying out of their viability;
- Initiation and / or development, under market conditions, of housing programs with private mortgage loans;
- Carrying out specific studies on the real estate market (supply and demand for housing, building land, costs, etc.).

4.2. Thermal rehabilitation

In 2002, the Romanian government issued an emergency ordinance (Ordinance nr.174/2002), which established deployment of heat insulation. This program provides the thermal rehabilitation of blocks of flats (condominiums and related facilities) built in 1950-1990 by standard projects, located in densely populated areas and connected to centralized heating systems owned by local councils.

Special measures for the thermal rehabilitation of these estates included:

1. insulation of external walls, terraces, floor over basement, roof or roof structures repair or replacement, windows and exterior doors replacement, repair, strengthening and painting of exterior walls and other structural and non-structural elements constituting the exterior of building;
2. interventions in pipes and fittings with loss of basement / heating owned by owners' association or individual owners.

Because of bureaucratic obstacles and lack of coordination of central and local state institutions, this program has been lowly successful.

4.3. Encourage construction of new homes

The Romanian state has tried to encourage construction of new homes by several types of measures:

- Subsidize a share of the costs of building primarily for young people aged up to 35 years, not owning a house, but who have acquired land, or buy a house using a mortgage loan; initially, the share was up to 20% for homes costing not exceeding € 100,000, then, due the budgetary restrictions, the subsidy was capped at € 10,000;

- Provision of land free of charge by the local authorities to young people up to age 35 years to build a house on the land.

Both programs were unsuccessful because of too many conditions to be fulfilled, and the lack of land at local authorities.

Romanian state has subsidy programs to cover utilities costs for more economically disadvantaged categories. They were taken measures to protect tenants from homes recovered by former owners abusively dispossessed by the communist regime and measures to strengthen the buildings reported by experts with earthquake risk.

4.4. “First Home” Program

The financial crisis that hit USA in July 2007, also known as subprime crisis, as many economists named it, had as the main source mortgages securitization with high levels of leverage, reaching values of 50-70, and falling prices in the U.S. housing market. The economic crisis that followed the financial crisis led to negative developments in North American and European real estate markets, as regards transactions and prices.

On Romanian property market, the beginning of crisis can be placed in the spring of 2008, earlier than the general economic crisis broke, in September 2008. The reason is mainly the large participation of foreign capital on the Romanian real estate market. Between March 2008 and November 2009, price dropped in residential buildings with about 50% and in first 9 months of 2009 the number of property transactions was 43% lower than the same period of 2008.

These market developments have had serious consequences for real estate developments, construction industry and mortgage loans market.

Mortgage loan bank financing experienced quasi-stagnation during 2009. The funding needs of Romanian state, in order to cover growing budget deficit, made the authorities to turn to the domestic banking market. Available liquidity to credit non-governmental sector became smaller. Due to economic crisis, defaulted loans increased their share three times in the first 9 months of 2009 compared to same period of 2008. Commercial banks faced asset impairment related risk in granting mortgage loans.

In general terms above, the Romanian Government decided to launch the program on "First Home", to facilitate access of Romanians to cheap financing by guaranteeing mortgage loans by the state. The program was launched on May 20, 2009, with the following characteristics:

- Can be eligible for the program people buying first home and have never received a mortgage loan;

- State guarantees 80% of the mortgage loan on houses not exceeding € 60,000;
- State guarantee is provided through National Credit Guarantee Fund for Small and Medium Enterprises (FNGCIMM), which would be changing the statutes;
- Ceiling amount guaranteed was set at € 1 billion;
- Program was intended for existing houses;
- Houses acquired through the program could not be sold earlier than 5 years after the date of acquisition;
- Any acquired house to be mortgaged in favor of the Romanian state and the executor set for cases of default was the National Taxation Administration Agency.

The program was clearly inspired by similar programs implemented in countries with developed economies under the concept of first time buyer, programs designed for buyers purchasing a first home. These programs assume that first home purchase is the most difficult, given the age of applicants, lack of credit history, their position on the lower rungs of the occupational hierarchy and lack of sufficient funds for down payment required to obtain a mortgage loan.

Also, the "First Home" Program was conceived as part of National Housing Policies, chapter in which Romania has not excelled since 1990.

Initially, the program was not conceived as a way to boost the construction sector, given that it was intended only to existing buildings.

The bill governing the program, Emergency Ordinance 60/2009, published on June 4, 2009, changes the prospects for the program:

- Implement the anti-crisis measures initiated by the Romanian Government to support priority economic sectors;
- Unlock lending process and boost construction activity affecting economic growth and job creation;
- Facilitating access by individuals to purchase residential property for the current context of financial and economic crisis.

However, there was no possibility of purchasing unfinished homes, which is not in any way led to boost construction activity.

Subsequently, the program has undergone significant changes:

- Despite the concept of first time buyer, which was the basis of the program, the access to the program has become possible for all those who did not own a home on the effective date of the bill;
- The ban on sale of property acquired through the program for 5 years was lifted, but maintained the requirement of approval of the Ministry of Public Finance;
- The program was expanded to unfinished buildings or off plan, the funding to be made by the developer, the applicant receives a promise of loan guarantee from the FNGCIMM and a promise of credit from the lending bank, and thereafter the amount credited to be released on finishing of the building.

The auction for commercial banks allow pets in the program first imposed the following conditions:

- Down payment 5% of the property price;

- The maximum interest rate on loans denominated in lei: ROBOR at 3 months plus 2.5 percentage points;
- The maximum interest rate on loans denominated in euros: Euribor at 3 months plus 4 percentage points;
- Commission for credit granting: 0;
- Anticipated reimbursement commission: 0.

20 commercial banks showed interest in this program. They oversubscribed the amount of € 1 billion with 47%, bids being corrected with pro rata.

During the program, FNGCIMM has taken some measures against some commercial banks, which did not grant any loan or just several loans, by lowering the ceiling of each bank by the redistribution of about € 200 million.

Romanian state is to guarantee by allocating € 100 million, starting from the assumption that the rate of default loans cannot exceed 10%.

A last-minute amendment stipulated that persons who are owners of an inherited property can participate in the program.

In 2010, the program was continued under another form. The state decided to reduce the program to € 700 million instead of € 1 billion. To encourage the construction of new homes, the Government decided to extend the guaranteed sum to € 70.000 and up to € 75.000 in certain conditions: association of minimum 7 individuals having a piece of land in ownership, their decision to build a condominium. This was a wrong decision. As far as we know, it couldn't be found any association of 7 individuals to meet the legal requirements.

For 2011, the third form of the program will be adopted, the conditions being unknown for now.

Occurred during a pre-election period, the Program „First Home” through its successive amendments gave the feeling of a populist and electoral action. Although it started from the concept of first time buyer, the program has become successively being diverted from its original purpose.

Program development through FNGCIMM, non-bank financial institution, specialized in guaranteeing loans for small and medium companies, induced failures in carrying out the process of guaranteeing mortgage loans through this program.

5. Conclusions

The Romanian state must consider in the future conceiving a coherent system of modern National Housing Policies, according to best international practices. They are many models of such public policies, which can be inspired from.

The programs must be extended for many years, being known that the production cycle of real estate assets is very long.

The present crisis can be a good opportunity for building from ground National Housing Policies.

Lack of performance in this area places Romania in an inferior position in the ranking of countries in Central and Eastern Europe in terms of National Housing Policies.

The elements that could make such a successful program could include:

- Program availability only to those who are first time buyers of a home;
- Granting a tax credit for people admitted to the program instead of State's guarantee, able to cover the down payment;
- Insurance of risk given by low down payment;
- Adjusting the ceiling of lending to market conditions.

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**TAXATION OF LABOR INCOME IN DIFFERENT COUNTRIES
THAT ARE NOT MEMBERS OF THE EUROPEAN UNION**

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Abstract

A proper understanding of the "coordinate" system of labor income taxation of individuals in our country can be made aware of the essential elements of similar systems of taxation both in European countries, States or the European Union and most developed countries outside Europe. To draw accurate conclusions from the performance level comparisons of rates of labor income of individuals from different countries must be taken into account the specificities and characteristics of tax systems in those countries. In making such comparisons must take into account the fact that there is no official source, no national or international, to the matter of taxes, social contributions and taxes in the countries under analysis. The following is presented in the following taxation of labor income countries that are not members of the European Union: Albania. Bosnia - Herțegovina. Croatia. Switzerland. Iceland. Macedonia. Moldova. Norway. Ukraine. Kazakhstan. Japan. Canada. China. Australia. United States of America.

Keywords: taxes, social contributions, tax, tax system, income from employment, individuals, taxation of labor income, the tax rate, tax base, tax base, deductions; matter taxable taxpayers, tax progressive flat tax base.

JEL Classification: G15, F30, E44.

A proper understanding of the "coordinate" system of labor income taxation of individuals in our country is possible only knowing the essential elements of similar tax systems of EU countries and most developed countries in the world. To draw accurate conclusions from the performance level comparisons of rates of labor income of individuals from different countries must be taken into account the specificities and characteristics of the tax system.

In making such comparisons must take into account the fact that there is no official source at the national level or international level, to the matter of taxes, taxes and social contributions (1) of the European Union countries, (2) countries Europe who are not members of the European Union (3) of the world's most developed countries and (4) countries where we have a direct interest (in which the Romanian people to work more and / or Romanian firms are involved). Comparing systems of

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labor income taxation of individuals should be based on data from the same year and the imposition of the same elements as "the quota", "tax base" type and size of the "deductions", "matter taxable ", "taxpayers ", etc.. and illuminating information, revealing.

Even if it were present, by an official body (national or international), the comparison of these shares, the same year, for several countries, in some countries the rates are known subsequent changes, as large as it is Frequently, not only from year to year, but even within the same year, Romania's case is illustrative in this regard (for example, in 2008, the rates of contributions for health were changed three times).

Knowledge "of tax-exempt income", called "tax relief" (or simply, "deductions") is particularly important.

There are countries, including Romania, where many employees do not owe no tax on wages/ income as a result of deductions they receive.

Peculiarities of each country tax system is essential, even critical analysis, understanding and appreciation of a fair tax system and for making accurate comparisons.

Any feedback, any judgments about the fairness and effectiveness of a tax system without a thorough knowledge and without a thorough analysis of deductions/incentives granted (= exempt from tax revenues) leads, definitely, the numerous and serious errors.

For example, making tax assessments between the two systems, one uses flat tax of 16%, which gives the above deductions, but without any knowledge about them, and one still using the single rate, but 10% but such deductions shall not be wrong to conclude that the tax system with the lowest tax burden is one that works on a flat 10%. Similarly things in terms of "base" of the tax.

For example, even in our country for a long enough period of time, "base" of the tax was "the basic salary. Subsequently, the "base" of the tax has changed radically, passing from their "base salary" to "gross income", which led to increased taxable income (= tax base) by 3-5 times within certain categories of employees paid from public money, the revenues 'side' of salary, and incentives were, by 2010, from 3 to 5 times base salary.

There are countries, especially between the developed West, where most of the income tax rates remain unchanged for long periods, up to 10 to 15 years, while in other tax rates change frequently, particularly when changing political party and / or government in the country's leadership. From 2000 to date shows that while some countries have increased tax rates, others have decreased. In some countries it shifted in the calculation of tax on income from employment of individuals, from flat to progressive rates (in the frequent cases in disguised form) and in other countries, since the flat tax progressive.

At the same time, substantial changes were most countries, both in broadening the tax base and reconsidering the level of rates and facilities (facilities, exemptions, reductions) in tax.

Given that in many countries have frequent changes of tax rates (from 2-3 years and even annually), the mere discretion, only after the level of these allowances, reduced or enlarged, but without taking into account the changes in the level tax base (in some cases extended solid) leads to wrong conclusions. To ensure an accurate assessment of the "details" of the tax system in our country, to the tax systems of other countries, especially compared to the European Union countries, the evolution and trend (direction of improvement) of their , it must be known the main features and peculiarities of taxation systems, if only for countries that have data. Our country's representatives in international organizations (especially in the EU) and countries which play a key role in economic and social development worldwide, and in those where we have a direct interest (which is the most Romanian work and / or the Romanian companies are involved) should be really active in the study, evaluate and inform about trends (evolution) of these phenomena, including interventions in the literature and media, so as is the case in other countries.

It is important that either the level of each ministry (depending on the competence of the ministry) or the Government to ensure, internet, information at least annually, more accurate and complete systems of taxation, contributions social, other budgetary obligations applied in the countries listed above.

The current crisis, with its numerous and serious adverse economic and social, reported in U.S. since August 2007, came to us after more than a year, but without representatives of the Romanian state, especially those from abroad, to be informed and made aware of it. Most important is to consider the fact that the very economic and social development of each country depends to a large extent, the ability of its representatives in international organizations and countries that have a direct interest, to apply, evaluate and capitalize on time so everything is better in other countries, developments and trends and phenomena tax, financial, economic and social development in these and internationally.

This recital is to be known, especially during periods of "critical" (as the crisis) both tax systems, calculation of pension and social security most developed countries but in particular, trends, guidelines, strategies to be applied therein. To ensure an accurate assessment of the direction of improving the tax system in our country, it must be the main characteristics and features of the taxation systems in countries for which we have data. In connection with sources of information on essential elements of the taxation systems in European Union countries and most developed countries in the world is made clear that they are missing for some countries, be incomplete (especially in terms of knowledge base account of budgetary obligations and whether the tax rates, as simple or progressive) or they are from previous years.

We say this considering the fact that in some countries, the taxes, fees, contributions have remained unchanged for several years, in some cases even up to 10-15 years, while in other countries such as Romania, they change frequently (annually for social contribution rates).

It is important and an indication that the materials are presented about the tax systems of different countries can not fix some of the essential elements of those tax system.

ALBANIA

Albania practice progressive taxation for individuals. Progressive tax scale contains five tax rates ranging from 5% to an annual income between 14,000 and 40,000 Leka, and 30% for income exceeding 500,000 Leka. Employee social security contributions accounted for 11.2% of gross income, while 30.7% of employers.

BOSNIA-HERZEGOVINA

Bosnia-Herzegovina practice progressive taxation for individuals. Personal income derived from its basic function is liable to 5%. For out of office income base tax rate is 30%. Any other income is taxed at 50%.

CROATIA

Croatia practical progressive taxation for individuals. Tax rates for income tax ranges from 15% for annual incomes of less than 38,400 kuna and 45% for income in excess of 268,800 kuna.

SWITZERLAND

Switzerland practical progressive taxation for individuals, both those due to the federal state, as well as those due to the cantons and communes. In Switzerland, the peculiarities of the administrative-territorial system is reflected in the taxes to be paid (a) Federal State (2) of the 26 cantons and (3) municipalities (such as taxes and taxes/ local taxes in Romania) . Tax rates on individual income is compared to the level of government, federal state level are different from, the cantons and communes.

1. Personal income taxation at the federal level. Taxable income includes all sources, including those in kind, calculated at market value. Federal tax payment is due March 31 next year and is due to the fiscal body in whose jurisdiction the taxpayer resides. Determination of tax at the federal level, is based on sliding scale below.

2. Cantonal taxes. Each canton is free to determine the annual income tax rate. Income tax rates in cantons do not generally exceed 19%. Are special rules for taxing assets, singles, couples.

3. Municipal taxes. Each commune is free to set the annual tax on income and wealth, according to the needs of their budgets as a percentage of cantonal taxes involved. Cantonal and communal taxes is (1) during the year in 10 installments in the form of prepayments, (2) and after the fiscal year, within 30 days after the ruling, for any differences resulting from adjustments.

Nr. crt.	Venitul impozabil, în franci elvețieni	Cota de impozit, %
0	1	2
1	Sub 27.400	0
2	27.401. – 788.400	1 – 15
3	Peste 788.400	11,5

Note: a Swiss franc, denoted CHF exchange with (approximately) 0.65 euros.

ICELAND

Iceland practical progressive taxation for individuals. So as a general rule in personal income tax, the tax is computed and withheld at source (ie income is not paid until the tax is calculated and retained). Taxpayers due a national tax rate 24.75% and 12.98% local tax. At higher income 4,191,686 Icelandic crowns (Icelandic crown changes about 0.013 euros), so around 5450 euros, is due to additional tax at the rate of 4%. Independent of taxes paid on income from employment, each taxpayer participating 5738 annual Icelandic krona (about 75 euros) to establish a central fund for the construction of nursing homes for the elderly. Capital income tax rates are subject to 10%.

MACEDONIA

Macedonia practice progressive taxation based on the following scale of taxation. The scale of annual personal income tax in Macedonia, in 2006. 1 euro = about 61 shillings Macedonian (MKD).

Nr. crt.	Tranșa de venit	Cota de impozit, %
0	1	2
1	Până la 360.000 MkD (circa 6.000 de euro)	15
2	360.001 – 720.000 MkD (circa 6.000 – 11.800 de euro)	18
3	Peste 720.000 MkD (circa 11.800 de euro)	24

MOLDOVA

In Moldova, progressive taxation is practiced. The "Article 15. Tax rates "in the Tax Code of the Republic of Moldova states: "The total amount of income tax is determined: a) for individuals, except in households (farms) and private entrepreneurs, in the amount of: - 7% of annual taxable income does not exceed 25,200 lei (about 7,000 euros on 08/13/2010, based on exchange rate of 1 euro = 0.2779 MDL) - 18% on annual taxable income exceeds the sum of 25,200 lei (7,000 euros on 13.08. 2010 based on exchange rate of 1 euro = 0.2779 MDL), b) for legal persons - in the amount of 0% of taxable income, c) for farmers (farmers) and individual entrepreneurs - worth 0% of taxable income, d) for traders whose income has been estimated in accordance with art. 225 - in an amount exceeding 15% of the estimated income from gross income recorded in the accounts of the trader. "

NORWAY

Norway Norway nonstandard. In practice a progressive tax, taxpayers are divided into two classes. In class I shall include individual taxpayers and wives who opt for separate taxation. In the second class to include couples and single parents, the concept of "torque" and "single parent family" with the meaning and scope defined by Norwegian law. By art. 5 of the "Government Emergency Ordinance no. 105/2003 on the additional family allowance and support allowance for single parent

family "as" single-parent family 'includes' single person families with children aged under 18 and dependents who live with it. " The concept of "couple" means "pair made up of people (opposite sex)" as DEX, and "union of two persons of the opposite sex are in some respect, mate", according NODEX. In countries that legalized marriage between same-sex, a "couple" has the meaning of "couple of persons of the opposite sex and same-sex" and the "union of two persons of the opposite sex, or same sex are in some respect, mate. " Tax rates vary between 12% and 28%, being a function of income. Distinct and unrelated to the income tax is due and a tax on wealth, which varies between 0.2% and 0.7%, depending on the size and type of property.

RUSSIA

Russian tax practice based on a so-called single rate of 13%, but in reality is not unique if we take into account numerous tax rates and tariffs, and 9% for dividend income, 30% for any Income derived by a resident, 35% for income from prizes, the bank deposits over a certain size (considered very large), the profits (benefits) of insurance etc.

SERBIA

Share of "standard" labor income tax (the income earned by individuals) is 14% on the general principle "by withholding" called "by withholding at source" which expresses the rule that "tax payable on income that is deducted from income before the beneficiary can raise the money due to him. " Annual revenues of Serbian citizens who are more than four times the average annual salary is taxed separately at the rate of 10%. Share of 10% applies to non-residents only if their annual revenues are more than 10 times the average annual salary.

MONTENEGRO

Serbia and Montenegro was a union state in the south-eastern Europe. Belgrade was the capital of the state union, while Serbia's capital, which had a hegemonic position. On May 21, 2006 Montenegro's population of 55.4% of votes decided separation from Serbia, the union almost ceased to exist on June 3, when Serbia officially proclaimed its independence. Tax rules are different from those in Montenegro from Serbia. In Montenegro, the personal income tax in the period 1 January 2006 to 30 June 2007, was made by applying progressive taxation on the scale below.

Nr. crt.	Tranșele de venit impozabil, în euro	Cotele de impozit, %
0	1	2
1	0 – 785	0
2	786 – 2.615	16
3	2.616 – 4.577	20
4	Peste 4.577	24

TURCIA

Turcia aplică impozitarea *progresivă*. Pentru veniturile din salarii mai mici de 6.600 de lire turcești (o liră turcească se schimbă pe circa 0,625 euro), cota de impozit este de 15%, iar pentru veniturile mai mari de 78.000 de lire turcești cota de impozit este de 35%. Pentru celelalte categorii de venituri (adică pentru cele obținute din alte surse decât din salarii), impozitul se calculează pe baza aceluiași barem, dar cu cote de impozit majorate cu 5%.

UCRAINA

În anul 2007, Ucraina impozita veniturile persoanelor fizice cu *cota unică* de 15%.

KAZAHSTAN

Kazahstanul aplică impozitarea *progresivă*. Baremul anual de impunere *progresivă* a veniturilor persoanelor fizice în Kazahstan, în anul 2006, este redat mai jos.

1 euro = circa 160 KZT

Nr. crt.	Tranșa de venit	Cota de impozit, %
0	1	2
1	Până la 185.400 (1.160 EUR)	5
2	185.401 – 494.400 (1.161 – 3.090 EUR)	8
3	494.401 – 2.472.000 (3.091 – 15.450 EUR)	13
4	2.472.001–7.416.000 (15.451 – 46.350 EUR)	15
5	Peste 7.416.000 (46.350 EUR)	20

JAPAN

Japan progresivă. În taxat on personal income tax, levied a tax in Japan is national and local taxes. National income tax is determined based on the following sliding scale:

Nivelul veniturilor (în yenii japonezi - JPY ²⁵)	Cota de impunere (%)
Mai puțin de 3.300.000	10
3.300.001 – 9.000.000	20
9.000.000 – 18.000.000	30
Mai mult de 18.000.000	37

Instead, local income taxes are divided into: 1. A per capita tax, levied on each person living in Japan, directed toward two types of local authorities: 3,000 yen owed by the municipality in which the taxpayer lives and 1,000 yen Prefecture that is embedded owe this city. 2. A tax based on income levels, ranging from 5% for lower income of 2,000,000 yen) and 13% for income exceeding 7,000,000. yen.

²⁵ 1 Japanese Yen (JPY) = 0.01 €.

CANADA

Canada progresivă. În taxat, the tax system is organized at both central and local provinces. Personal income tax is due to central authority (federal) and local authorities. Tax owed the central fiscal authority (federal) is calculated based on the following sliding scale:

Nivelul veniturilor, în dolari canadieni (CND)	Cota de impunere, în %
0 – 35.595	16
35.596 – 44.549	22
44.550 – 115.739	26
Peste 115.739	29

Provinces and territories of tax owed is calculated based on the following sliding scale:

Provincia/Teritoriul	Cotele de impunere (%)
Newfoundland și Labrador	10,57 – 18,02
Insula Prințul Edward	9,80 – 16,70
Noua Scoție	8,79 – 17,50
New Brunswick	9,78 – 17,40
Ontario	6,05 – 11,16
Manitoba	10,90 – 17,40
Saskatchewan	11,00 – 15,00
Alberta	10,00
Columbia Britanică	6,05 – 14,07
Yukon	7,04 – 12,76
Teritoriile de Nord-Vest	5,09 – 14,05
Nunavut	4,00 – 11,50

Quebec is the only province that has a special tax status in the income tax is between 16 and 24%.

CHINA

China Applies Progressive Taxation. In China the following Rules apply to personal income tax: 1. Other Income from wages and income is taxed the Same kind per month, based on a progressive system, with tax rates ranging from 5% for taxable income below 500 yuan and 45% for taxable income exceeding 100,000 yuan. 2. Personal deductions are awarded 4,000 yuan per month for non-residents and between 800-1600 yuan for residents. 3. For income from intellectual property rights is granted a deduction of 30% of gross income, therefore taxable income (70% of gross income) is taxed by 20%. 4. Interest and dividend income is taxed at the rate of 20%. Hong Kong, a territory that is now under Chinese control, receive a proper tax system. In Hong Kong, personal income is taxed at progressive rates ranging from 2-20%.

AUSTRALIA

Australia apply progressive tax. Australian tax system distinguishes between personal income and income derived by resident individuals of non-residents. Personal income taxation is based on the following sliding scale:

Venituri impozabile obținute de rezidenți (în dolari australieni ²⁶)	Cota de impunere	Venituri impozabile obținute de nerezidenți (în dolari australieni)	Cota de impunere
0 – 6.000	0	0 – 21.600	29%
6.001 – 21.600	15% pentru ceea ce depășește 6.000	21.601 – 63.000	6.264 + 30% pentru ceea ce depășește 21.600
21.601 – 63.000	2.340 + 30% pentru ceea ce depășește 21.600	63.001 – 95.000	18.684 + 42% pentru ceea ce depășește 63.000
63.001 – 95.000	14.740 + 42% pentru ceea ce depășește 63.000	Peste 95.000	32.124 + 47% pentru ceea ce depășește 95.000
Peste 95.000	28.200 + 47% pentru ceea ce depășește 95.000		

UNITED STATES OF AMERICA

United States of America apply progressive tax. Since the United States of America are the most powerful country in the world of economic, military, political influence and scope of technological development, we considered it necessary to make a comprehensive presentation on taxation in this country. Federation "USA" is composed of 50 federal states, of which 48 are States continental contiguous (form a contiguous territory), and two states, Alaska and Hawaii, are exclave, separated from the territory of being 48, the first of Canada The second of the Pacific Ocean. In those states plus the Federal District of Columbia (DC), obtained by federal territory equal donations from Maryland and Virginia states. United States of America is a federal state. Each state has legal sovereignty has its own parliament (generally called the assembly - assembly), often bicameral, directly elected governor of the state population, it led government and its judiciary, including Supreme Court justice. Very many responsibilities, such as police, civil and criminal justice, education, taxation, which in other countries, are the prerogative of the central authorities in the U.S. are

²⁶ Australian \$ 1 = 0.64 €.

the prerogative of states. Each state has its own tax system. The U.S. taxation is regulated at both federal and states that make up the federation.

Each state federation has made up a parallel system of taxation of benefits, both direct taxes as well as indirect taxes. Income tax paid by every American is of two types, federal and state. Some states choose not to levy income tax, preferring to bring the budget money from the sales tax (sales tax). The U.S. does not apply value added tax, instead imposing a "general tax on sales, which is equivalent to" value added tax, levied in most European countries. However, the budgets of states and federal authorities are often insufficient amounts allocated to states for certain destinations. Their allocation is frequently subject to certain conditions, thus ensuring the federal authorities, indirectly, that those states are the policy areas that he wants the federal government. There are cases when some states refuse these allocations and maintain an independent economic and social policy. They are often torn between a policy and receive its own additional federal funds. From the semantic point of view, should be made clear that the U.S. uses a charge for both the tax and for the taxes and contributions. Each employer stops taxes / fees of the employee's salary and remitted directly to the Government. Annually, each American citizen and every resident who works or has worked in the United States must complete income statement and submit the tax authority by 15 April.

The income statement, each person must state all income, their sources, taxes / fees paid for that income and calculate the differences in taxes / fees are due the state or of the additional paid in accordance with the law. American authorities for taxes and fees will compare the information received by the employee with information supplied by the employer, and payment decisions for differences / refunded shall be issued. It is working in the U.S. tax system.

Usually, taxes / fees are higher than taxes withheld / taxes due the state and such employee is entitled to reclaim any differences, but in rare cases it may be noted that the employer would be less of taxes / fees owed. In situations where the employee has paid less taxes / fees than they should, the employee becomes indebted and must pay the difference in taxes / fees due to U.S. tax authorities.

In the U.S., over 70 years, subject only to income tax progressive work.

In his "Political Economy" by Paul A. Samuelson and William D. Nordhaus, translated into Romanian and published by theory, are the following clarifications regarding the maximum tax rate in the United States of America which, during the World War II, came to 94% (emphasis added):

1. On page 385 is present following of former President Reagan, accompanied by the comment authors: "<<Am Started making money making movies during World War de-al Mondial>> Reagan used to say. <<In that time, the income tax had risen to 90%>>. If you examine the [...] you'll notice that the actor Reagan was on the other side of the curve during the Second World War, when the maximum tax rates exceeded 90%. But by 1980, the maximum marginal tax rate applied to income was only 50% reaction of the President seemed to apply to older generations of workers. "

2. On page 372: "To get money to support the war effort, the tax rates have increased rapidly, reaching up to 94%. After the war, the income tax continued to be the most important federal tax. However, the tax rate paid by people with the highest incomes was reduced to 70% in 1965 to 50% in 1982, reaching 28% in the 80s to increase again in 1993 to 40%". Currently, income from employment is subject only to progressive taxation based on a scale of five installments, the maximum being 35%. From 1 January 2011, ending the tax reductions implemented during the Bush government, top marginal rate of returns during the Clinton government, namely from 39.6%. The U.S. also apply a progressive tax on inheritance shares between 18% and 55%. Properties over \$ 10 billion of the deceased is subject to an additional tax of 5%. The deductions (= exempt from income tax) is as complex as it is consistent, ranging up to 50% for donations. Personal income taxation is based on a sliding scale, tax rates ranging between 10-35%. Earnings / capital income and dividends received by an individual are considered taxable income and are taxed according to the taxable portion of income falling. In light of that employment, earnings / capital income and dividends are taxed at 5% if taxable income can be classified in the first two installments of tax or 15% for higher taxable income. / Tax base is determined by taking into account the broad categories of deductible expenses

Rates of personal income tax in 2005, the U.S.

Nr. crt.	Married Persons submitting Group statement	Singles	Person who is head of household	Married people who submit a separate statement	Irregular rate of commitments
0	1		2	3	4
	0 – 14.600	0 – 7.300	0 – 10.450	0 – 7.300	10
1	14.601 – 59.400	7.301 – 29.700	10.451 – 39.800	7.301 – 29.700	15
2	59.401 – 119.950	29.701 – 71.950	39.801 – 102.800	29.701 – 59.975	25
3	119.951 – 182.800	71.951 – 150.150	102.801 – 166.450	59.976 – 91.400	28
4	182.801 – 326.450	150.151 – 326.450	166.451 – 326.450	91.401–163.225	33
5	Peste 326.451	Peste 326.451	Peste 326.451	Peste 163.225	35

Taxation in the United States. Most U.S. states levy income tax, profit tax and a "general tax on sales" which is equivalent to "value added tax" as perceived in most European countries. Few local tax authorities are not using their full powers, giving local taxing one or two of the categories of income for that right, especially for income tax and / or income tax. In relation to income tax, tax rates are low, the highest rates, such as 9.5%, being achieved only in Vermont and the District of Columbia and only the highest income. In most states, the federal tax paid is deductible from the state imposing the tax. Most states use a progressive income tax system, while fewer of them, like Colorado, Illinois, Indiana, Pennsylvania, applies a flat rate of tax. And state level, as in the federal income tax take into account family circumstances of the taxpayer as ordinary tax per couple.

Conclusions

The analysis of taxation (progressive taxation based or flat pa) to 19 countries outside the European Union, individual income is taxed progressively in 17 countries, a country with two tax rates apply to a single country and uses so-called flat tax, but in reality is not unique if we take into account numerous tax rates applied. Personal income is taxed progressively in the following 17 countries: 1. Albania. 2. Bosnia - Herzegovina. 3. Croatia. 4. Switzerland. 5. Iceland. 6. Macedonia. 7. Moldova. 8. Norway. 9. Montenegro. 10. Turkey. 11. Ukraine. 12. Kazakhstan. 13. Japan. 14. Canada. 15. China. 16. Australia. 1. United States of America. Russian tax practice based on a so-called single rate, but in reality is not unique if we take into account numerous tax rates applied. Serbia practical two tax rates.

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**INVESTMENTS IN THE CONTEXT OF THE ACTUAL
ECONOMIC CRISES**

Daniela Zirra*

Abstract

Investments represent the material support system of any sort of economic growth, they contribute greatly to ensuring a normal development of an economy, the key factor in the development of production infrastructure and the material basis for all the socio-cultural activities undertaken, as well as a boost in the quality of life in any kind of economy, regardless of the structure and stage of development studied. Investments are easily affected by different factors or phenomena which can jeopardise the project implementation and the targeted results partially or even entirely. The article is trying to summarize what happens with the investments when the economy goes down. The greatest risk nowadays is the volatility of prices. In a period when the demand for products and services is dramatically reduced, the investors have no perspectives available regarding the evolution of markets. When economic recession is present, all investors wait for the investment decision of the other investors. So, the question is whether to invest or not? Which is the best decision? What are the others doing? We are trying to find an answer in this paper.

Keywords: Investments, Risk, Efficiency, Economic environment, Economic recession, Economic crises

JEL Classification: E22, E32, F21, F23, F44

1. Investments today

The importance and decisive role played by investments in the social and economic contemporary development (at a local, regional or national level) is no news for anyone.

However, it is quite necessary to pinpoint a few notions and aspects where the importance and need for investments are vital as a stimulus of economic growth, as well as an essential requirement that must be fulfilled in order to warrant a rise in economic competitiveness at a company level and at a national economy level.

In an economic environment subject to continuous change, particularly in one which is quite strongly influenced by the negative evolution of the present global economy, the dwindling suffered by the rate of growth in investments or even the nullification of those actions in certain branches of activity often generate amplifying effects on the negative influence factors in the business environment.

We are all sharply aware of the complex role that new technologies and the spread of knowledge-based economy play in all sectors of our daily life. The

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assimilation of novelty aiming towards the growth of competitiveness in companies and active premise management aimed at stabilizing, consolidating and increasing the company position on the market are stoutly based on the successful investment processes whether they are carried out internally or they refer to investment flows which are attracted from environments external to the companies, nationally or from abroad.

The positive evolution of organisational performances in our contemporary economy is vitally linked to the spread, the quality, the structure and dynamics of investment flows. Also, we must keep in mind the necessity of creating a favourable climate for investment, while also taking into account the propagated effects of the present economic crisis at a global level will make this endeavour much more daunting than ever before.

Investment processes are always risky in character taking into account the need for the allocation and usage of resources available, the effective spending, respectively (oftentimes the costs are quite important) aiming to obtain future advantages which are usually uncertain.

The more unstable the business environment becomes, the greater the level of uncertainty in reaping sufficiently consistent benefits to ensure the recuperation of costs generated by the investments themselves, as well as an making an additional profit that would compensate the investor for taking on the significant risks and the efforts made by said investor.

Also, given the present economic crisis situation, it is much more difficult to anticipate the real cost of an investment, even if this investment is made on a short term basis. Consequently, the risk source factors are multiplied. Last but not least, the process of evaluating the efficiency of investments presupposes certain forecasts of the economic and financial fluxes according to a specific set of variables.

But, we have to mention that the simple process of choosing the influence variables is risky too because of incomplete information, errors in estimating trends of economic environment, etc.

The inertial character of investment flows must not be disregarded as well. These cannot be instantaneously stopped or slowed down to a halt over very short time spans when economic and financial conditions take a turn for the worst, as is the case of measures taken to stop labour market flows, commercial flows etc.

On a short term, investments take place even after the initial warning signs of the deterioration of environmental factors, following their projected evolution according to the tendencies read before the crisis. Only after this cycle is complete do the investment flows start rapidly diminishing or grinding down to a halt.

The same inertial evolution of investments takes place in post-crisis periods, but take the opposite course of action, as one of the most difficult problems faced by any government in those periods is trying to re-establish a level of trust in the business environment, both at the level of potential investors and that of companies or firms, as well as individuals.

The aforementioned elements merely paint an extremely schematised picture of the present status of the investment domain in our present day economy, as well as the internal and international context challenging it.

2. About the economic crises

In all informational environments, without any exceptions, heated discussions about the current global economic crises and its impact on individual, organizational, national, regional decisions are the norm.

At the same time, the triggering factors and the very accelerated pace of the spread of its impact at a global level are subject to very heated debates in the academic circles, in scientific research media and not only.

2.1. Review - the most significant moments

In general, a forthcoming economic recession is signalled by a decline in the GDP (Gross Domestic Product) over two consecutive trimesters and the growth of the unemployment rate with at least 1.5% percent over a twelve-month time span [Sarwade, (2010)].

From a historic point of view, three main moments can be pinpointed in what concerns the manifestation of major economic crises. The first one happened before the outbreak of the First World War from 1907 to 1908.

The next significant crisis occurred from 1929 to 1933 and it pre-dated the outbreak of the Second World War.

The third such turning point is the actual economic crisis which was first signalled in the second half of 2007 and is still in force as we speak.

A lot of publications try to approach these three events from the perspective of their similarities and differences, or their effects, or the level of mechanisms which have underlined the occurrence and progress of the crises. We shall take a look at the similarities and differences which we shall analyze some of those summarily in [Directorate General of E.C., (2009)]. As far as similarities go it should be duly noted that before any major crisis the economy has had these following characteristics:

- A prolonged boom period;
- A significant prolific credit activity;
- An increase in monetary mass issued;
- A rise in the value of actives at increasingly higher levels;
- An exacerbated optimism (in some situations it was even unconscious in character) of the investors in taking investments risks concerning strategically plans and even current activity.

Another similarity of note is the fact that the collapse of the financial sector, with its more and more widespread interconnections at a global level has contributed as the triggering factor of the disturbance of the real economic state, carrying dramatic consequences over national economies, organizations, families and individuals.

The widespread geographical proliferation of the crisis, on an increasingly larger scale, from one crisis to another must be mentioned once again. In the end, we cannot ignore the fact that each of these crises was followed by the emergence of a dramatic recession state in the economy, characterized by drastic unemployment, the reduction of commercial activity, a blockage of investment activities, a decrease in standards of living etc.

As far as differences are concerned, the short time span of the recession in 1907-1908, as well as 2007(8)-2009 as opposed to the Great Depression in 1929-1933 which has led to a recession spanning over 4 years can be noted.

Another difference is the evolution of the general index of prices throughout the first two crises as opposed to the current one. Nowadays there are no significant discrepancies in the evolution of prices: neither towards an increase nor towards a decrease of those and the very dramatic deflationist phenomena - important traits of the first two economically difficult situations in modern economic history - have posed highly uncomfortable conundrums to decision factors at a macro and microeconomic level.

Yet another element worth noting is the fact that in the present economic crisis the most dramatic negative effects have not been experienced by the regions where the crisis has started, but at the level of economic systems in a less developed state as opposed to previous crises when the US was the first area to be seriously affected by these imbalances. If the evolution of unemployment is analyzed, it can be concluded that certain very high rates have been experienced, around 30% and over 40%, during 1929-1933 as opposed to the present rates situated as a general rule around the value of under 10%.

The flow of the unemployment rate is not so remarkable in the present economic crisis if we are to remark that in 2009 compared to 2007 and 2008 its growth decreased by 5 percent including the rate in the US with some exceptions, for instance Lithuania (+8.2 percentage points in 2009 compared to 2008 and +9.7 compared to 2007).

The last point of difference in the three economic world crises that we shall mention in this paper, which is in fact one of the most important points of contention, is the spark which triggered the starting mechanism of the crisis.

During the first half of 1930, the first sector to suffer from a collapse was the banking sector, in the US as well as in Europe and one of the most notable reactions of the governments was to increase the protectionist measures taken to stop the capital from flowing across borders. In this present crisis the „guilty” sector was the real estate sector more precisely the American real estate and housing sector.

The eventuality of protectionist measures taken against the free flow of capital is not worth mentioning in this study as it is impossible to impose such measures in our contemporary economy.

2.2. Brief description – the mechanism of the present economic crisis

The American housing market has had an almost explosive development and evolution throughout 2002 because of the diminishing rates of interest for mortgage credits.

This evolution has generated a veritable boom of the demand in housing. Consequently, an extremely large number of mortgage credits were contracted (mortgages which did not specify a fixed mortgage rate, as a safety measure), taken out by persons including a very high number of those with modest incomes who represented very dramatic risks when the payback costs of credits were to rise [Todt, (2009)].

The entire process has been frenetically prolific and the market prices were on a constant rise because of lower standards for minimal conditions needed to contract credit until 2007 when the mortgage rate rose. From that moment on, owing to the fact that the mortgage rate written down in the contract was variable in nature and the banks were free to grow the rates without asking from permission of the person paying the credit, more and more people started having trouble paying their mortgages, until gradually, a lot of those were rendered fiscally insolvent.

Unfortunately, the housing supply continued its ascending evolution for a while, but the prices of homes had gone on a downward trend. This was the point when the effervescent evolution, incredibly optimistic too, on the housing market came to a sudden halt and the whole collapse started, which had to do with a succession of decisions with more than negative consequential effects ending with entering a vicious circle.

The first effective step towards the initiation of the crisis was taken when mortgages were taken out on the financial market without the degree of risk of procuring them and investing available capital in them being mentioned, as they seemed rather alluring at the time.

Unfortunately, instead of simmering down, the funds thus obtained by the banks were used to attract more mortgage credits and the process went on indefinitely. Another worsening factor was that a lot of banks, investment funds, insurance companies, individuals from all over the world were involved in the activity of buying such stocks which caused the propagation of the negative effects on a global scale with the speed of lightning.

The transmission of such disturbances from the housing market to the banking sector and then towards the real economy happened instantaneously and in an almost natural fashion because all types of credit activities were affected by it.

The level of trust in the business environment dropped dramatically and the exaggerated caution of companies where their activity and strategic planning were concerned, including their investment programs, has decisively contributed to the globalization of this economic crisis in less than a year. The elements previously mentioned paint a schematized and simplified picture of the triggering mechanism of the present economic crisis. We wish to additionally refer to one single aspect.

The direst triggering factor is, in fact, obscuring the truth through masking certain risk factors and a lack of communication. We conclude time and time again

that, in our society, deficiencies in the informational flows profoundly influence global economy especially in more trying times. Unfortunately, the positive outcomes of promoting a globalize economy are slower to be propagated than we are all envisaging it.

3. The impact on investments

The current economic crisis is considered by many specialists as more damaging than the Great Depression in 1929-1933 in terms of its complexity, geographic spread, speed of dissemination and the effects suffered by the real economy.

It is quite intriguing to take a closer look to what happened in the investment sector keeping in mind its importance with regard to the development of modern economy.

3.1. Investments in 2006-2009

In order to have a clearer picture of the evolution of investments as impacted by the crisis, this calls for an analysis of the state of investments during the previous periods, for instance between 2006-2007.

For each zone or type of economic development, a few representative countries have been chosen, whether for the fast pace of evolution of Foreign Direct Investments – FDI or the slower pace of growth, or diminution of those factors [UNCTAD, (2008)].

It is obvious, from the data presented (Table 1) that the most efficient dynamics (+40.8%) were registered in countries from South - East Europe + CIS. In decreasing order of the rate of growth we would like to mention: The Russian Federation (+70.3%) and Kazakhstan (+34.4%).

In all of the developing areas certain economies exhibited a much accentuated trend of growth, as well as countries where the fluxes of FDI have registered significant diminutions.

The year 2008 is considered the first economic crisis year. Subsequently, owing to a rise in restrictions in the crediting sector and the decrease of trust of companies in the business environment and a rise in the risk factors, the global investment process underwent a contraction period.

The data in the official statistics register the fact that on a global level the FDI decline with more than 20% [UNCTAD, (2009)].

The stronger companies and the large transnational companies (TNCs) respectively had the fastest reactions, calling for the rethinking of the expansion strategies at a global level in the cross-border mergers and acquisitions (M&As), as well as the Greenfield sector (the development of production spaces in areas previously devoid of industrial activity, that is investments starting from zero, all over the world).

In 2008 the largest negative impact was registered in the developed countries of the world, such as Germany, The United Kingdom etc., because the pace of FDI diminution was situated around 33% as compared to the previous year.

Table 1 FDI inflows, 2006-2007

Host region or economy	Δ FDI (\pm) Billions USD	Growth rate (%)
World	+232.0	17.8
Developed economies	+143.5	16.8
USA	+17.5	10.0
EU	+79.0	14.9
Netherlands	+99.8	2,285.1
France	+42.2	52.1
United Kingdom	+31.6	22.6
Italy	-11.1	-28.1
Romania	-2.4	-21.3
Developing economies	+59.3	15.7
Brazil	+18.6	99.3
Mexico	+17.7	92.9
Chile	+7.3	92.2
Lebanon (West Asia)	-0.7	-25.5
Argentina	-1.9	-39.6
Tunisia	-2.3	-69.1
South-East Europe+CIS	+28.3	40.8
Russian Federation	+20.2	70.3
Kazakhstan	+2.2	34.4

Source: UNCTAD

The EUROSTAT statistics show that all through 2008 the external EU27 investments dwindled by 30% in the rest of the world, and the internal ones have decreased by 60%, which are extremely high paces of diminution for a single year.

In 2009 the situation kept worsening, the flows of FDI suffering a reduction of close to 39% in contrast with 2008 on a global scale [UNCTAD, (2010)].

Taking into account this evolution it is necessary to pinpoint a few important elements of the year 2009 (Table 2) in contrast to 2008, for instance:

➤ The reduction of investment flows is situated around 1,000 billion USD in real terms;

➤ The negative evolution has been present at the level of all components of the FDI;

➤ The most dramatic decrease happened at a cross-border M&As level, approximately 66%;

➤ The FDI diminution in the Greenfield component was relatively „less troublesome”, around 23%;

➤ The industries with the biggest investments done in 2009 were Biological products (except diagnostic substances), Electric Services, Banks, Combination Utilities, NEC and Investment Advice.

Table 2 FDI inflows, 2008-2009

Host region or economy	Δ FDI (\pm) Billions USD	Growth rate (%)
World	-656.7	-38.7
Developed economies	-396.7	-41.2
USA	-180.2	-57.0
EU	-146.8	-29.2
Hungary	-10.7	-165.2
United Kingdom	-89.9	-92.7
Sweden	-28.2	-64.4
Czech Republic	-6.7	-63.0
Spain	-39.7	-60.6
Romania	-7.2	-54.4
Developing economies	+59.3	-34.7
Malaysia	-5.4	-66.6
Morocco	-1.4	-56.6
Turkey	-10.3	-56.3
Thailand	-5.5	-54.3
Brazil	-18.7	-49.5
Hong-Kong China	-27	-42.8
Argentina	-3.8	-42.7
South-East Europe+CIS	+28.3	-39.4
Ukraine	-5.9	-55.2
Russian Federation	-28.9	-41.1

Source: UNCTAD

It can be noted that the devolution of cross-border M&A in 2009 recorded at a world level has been constant in all the development areas, around -66.6% for the South-Eastern European countries and CIS and -64% for the emerging economies (Table 3).

It is obvious that the fastest pace of diminution of the M&A levels in 2008-2009 has been recorded in Japan: -163.5%. Relative to the average of the EU member states (-56.4%), Romania is situated in the pole position as far as the dwindling M&A activity is concerned, as it has registered a fall by -97.7%. At the same time, there is a number of countries with a positive evolution, for instance in Belgium there was a growth of 385.3%, Austria with a +35.4% appreciation and Hungary with +18.7%.

However, in terms of absolute values, not just a relative scheme of evolution, the US is on the first place as far as M&A reduction rate is concerned, a -187.5 Billion USD loss was registered there. The US is closely followed by the EU with a loss of 141.6 Billions USD. The UK can be dissociated from the rest of the EU member states as its losses were around - 122.8 Billions USD.

Taking into account the fact that one of the driving factors in sustainable development and economic growth is actually the investment process, the current

evolution of investment fluxes is a very worrying one especially of import to the countries with developing economies.

It is most challenging to take a look at the Energy sector which, owing to the decrease of activity in the real economy has registered the first decrease in consumption (-3.5%) since the Second World War [IEA, (2009)]. The observations enunciated for May 2009 projected the following decrease of investment in this domain:

➤ 38% in renewable-based projects (the reduction of the first trimester of 2009 in contrast with the fourth trimester of 2008 is around 42%), after a rise of 85% in investments in 2007.

➤ 40% in the coal mining sector, even though throughout 2007 and even 2008, this industry proved to be highly profitable.

Table 3 Cross-border M&A, 2008-2009

Host region or economy	Δ M&A (\pm) Billions USD	Growth rate (%)
World	-466.6	-66.0
Developed economies	-386.0	-66.4
USA	-187.5	-82.5
Japan	-15.2	-163.5
EU	-141.6	-56.4
Romania	-1.0	-97.7
Sweden	-17.8	-94.5
Germany	-29.5	-92.6
United Kingdom	-122.8	-83.2
Denmark	-4.5	-74.3
France	-3.3	-72.4
Belgium	+9.6	+385.3
Austria	+0.5	+35.4
Hungary	+0.3	+18.7
Developing economies	-67.1	-64.0
Brazil	-9.0	-118.8
Mexico	-2.2	-95.6
Malaysia	-2.6	-93.0
Egypt	-14.3	-90.2
Turkey	-11.6	-87.7
Peru	-0.3	-86.9
Thailand	+0.2	+142.4
China	+5.8	+108.2
South-East Europe+CIS	-13.5	-66.6
Ukraine	-5.7	-97.0
Russian Federation	-8.5	-62.5

Source: UNCTAD

3.2. The case of investments in Romania

At the beginning of 2010, at an international level, certain mild signals of an eventual crisis end appeared (at least where the economically developed countries were concerned, the United Kingdom for instance, or even the USA).

However, the same thing cannot be applied to economies with a lesser level of economic development than aforementioned countries, like Spain, Greece, Italy, etc. or about the developing economies such as Romania.

At the same time, we cannot ignore the negative effects of the austerity measures proposed by the governments aiming to eliminate the budget deficits created at a social and political level, which led to a more dramatic disturbance of the economy of countries which were already drastically affected by the fast paced evolution and spread of the crisis around the world.

According to official sources, the level of Foreign Direct Investments during 2003-2009 has had an oscillating evolution, as it can be ascertained from the data presented in Table 4.

It is clear that two moments in the dwindling rate of FDI over the timespan should be held under scrutiny. The first moment happened in 2007 (-19.97% a value close to the UNCTAD statistical data mentioned in Table 1) when the growth rate of the real GDP has slowed down compared to 2006, and the second happened in 2009 (-52.02%) when most economies have faced similar problems.

Examples of positive evolutions can be seen in 2004, 2006 and 2008 in decreasing sequence of the fluxes of FDI attracted by the Romanian economy.

Table 4 Foreign direct investments attracted by Romania (2003-2009)

Year	FDI value (Million Euro)	Growth rate reported to previous year (%)
2003	1,946	-
2004	5,183	+166.34
2005	5,213	+0.58
2006	9,059	+73.78
2007	7,250	-19.97
2008	9,496	+30.98
2009	4,556	-52.02

Source: National Bank of Romania, Balance of Payments

The most interesting value is the one recorded in 2004, when a growth indicator of 266.34% was registered, which means a growth of over 2.6 times in the number of FDI, at the highest level of real GDP in the 2003-2009 time frame, the dramatic decrease in the rate of inflation and unemployment compared with 2003 and a business environment which proved more than appealing to foreign investors.

To sum up, a few additional remarks about the evolution of Romanian investments under the influence of the economic crisis in 2009 are worth making [NBR, (2009)]:

- The stagnation of investments in the industrial sector in: Mining and Quarrying, Wood Manufacture, Transport Equipment and Motor Vehicle Manufacture, Chemicals and Chemical Products Manufacture, Rubber and Plastic Products Manufacture, Printing and Reproduction of Record Media;
- The reduction of investment in the following sectors: Construction Materials, Refined Petroleum Products Manufacture, Coke Manufacture, Nuclear Fuel Manufacture, Computer and Radio-TV Equipment Manufacture.
- The reduction of investments in the Construction Work domain.

The registered data for 2009 are a little bit more optimistic in contrast to those of 2008 taking into account the fact that over the previous year investments in the industry sector decreased by 29% and the construction work investments dwindled by 37% [NBR, (2008)].

As far as 2010 is concerned, the FDI attracted by Romania represent 466 Million Euro in the first two months, respectively 302 in January and 164 in February (*Source*: National Bank of Romania, Balance of Payments). The value registered in the first half of 2010 is very low taking into account that the monthly average of FDI in the previous year was around 379.67 Million Euros.

Consequently, if the rhythm of FDI attraction in Romania remains at a constant level until the end of the year, this means that at the end of 2010 we will witness a new decrease in the volume of FDI, just like in 2009.

4. New trends for investments

Recent evolutions at an international level show that there is a rather dramatic tendency for the diversification of the risks companies are affected by when an investment venture is set at a decisional level. Starting from the triggering mechanism of the present crisis we can assess that as long as no changes are made in the evaluation of the various opportunities available on the market, the temporary capital deposits available in non-corporeal active accounts is more risky than the option of undertaking direct investments aiming to create and develop certain production capabilities.

The more advanced models of company evaluation can be adapted, extended and applied in the same manner for the assessment of the financial stocks emitted by those companies. Using this system a number of future and present or potential risks, both external and internal could be taken into account [Bircea & Bircea, (2010)]. In this manner, the investment division could be elaborated on a much more rigorous base and the risk of not attaining the predicted results will be considerably lower.

A modern approach to elaborating investment strategies under liability conditions, especially if considerable investment funds are concerned, could lead to the growth of the degree of confidence in the economic environment of all interested parts, individuals, companies, governments respectively.

In the periods when the economy is declining, all the deficiencies generated by the faulty „government” of business in the previous periods, those at a

microeconomic level or at a macroeconomic one, are coming up. Since we have broached the topic of faulty administration of resources we will mention a few examples in the following scheme:

➤ The lack of parsimony and rationality in the administration of the resources available, including those allocated for investment during the periods of economic development could have negative consequences of such a dramatic nature that they can accentuate the negative effects of an economic crisis even if this crisis is not a great one and has a short term impact;

➤ Awarding salary bonuses without a solid base in the labour productivity will cause an unjustifiable growth of spending, a reduction in profit, and through this a decrease in the level of funds allocated for investment, a decrease in the efficient development of the economic activity or impact negatively the quality of human capital and the competitiveness of the products and companies involved;

➤ Excessive bureaucracy, the overcrowding of personnel in public institutions, disregarding the real needs of the economic and social environment will foment corruption, legislative grey areas, political instability and the lack of transparency of the authorities in terms of public expenditure. And all of these have a major negative impact on the attractiveness of the Romanian business environment for foreign investors, etc.

The aforementioned elements are present at the level of all national economies, with a smaller or bigger impact in relation to the administrative structure, the level of development, the political system etc. In times of economic crisis the level of trust of investors is significantly dwindled anyhow and their cautiousness is sometimes needlessly exaggerated, but such behaviour is quite normal. Therefore, the decisions taken in order to re-establish a more favourable climate for investment cannot simply target the economic sector.

Additional efforts need to be made for a rise in efficiency and administrative quality.

5. Conclusion

At an international level, the more developed economies of the world present certain symptoms of redress and crisis emergence. As far as the US economy is concerned, for instance, some growth is predicted in the first half of 2011 up to a value of 0.75% in relation to the historical one recorded in 2008 [Rusek, (2009)].

The more developed countries in Europe are announcing that the recession is coming to a close, even if they have presented quite severe austerity measures on their current agenda. As far as Romania is concerned, it can be noted that it is just now entering the most severe part of the economic crisis as an effect of the very late elaboration of a realist plan of redressal.

In terms of investment, as was the case in the rest of the world, Romania has experienced the full negative impact of the current economic crisis. According to the

recent evolutions in this domain, the objectives of the government are directed towards protecting our national economy and stimulating economic growth.

A few priorities of the national decisional factors in terms of revigorating the economy and a minimisation of the effects of the economic crisis over the investment process need be enumerated [Leucuta, (2010)]:

➤ An increase in funds allocated for infrastructure (transport, health, education, environmental infrastructure, tourism, rural development and heat rehabilitation of old houses);

➤ Promotion of activities destined to create a favourable business environment, social protection, budgetary consolidation and creating new jobs in addition to maintaining existing ones, etc.

We must stress this again that Romania is dealing with a dangerous economic contraction. The budgetary deficit has been continually amplified from the onset of the economic crises onwards. Romanian exports have been constantly dwindling, production activity is slowly trying to pull through, and constantly attempting to cut its losses, the number of companies who cease activity completely and declare bankruptcy or become insolvent is growing without precedent.

Even if the inflation remains at a low level, the unemployment rate is still growing from one month to the next. Consequently, even if some institutions predicted that at the end of 2010, Romania will emerge from the crisis [Constantinescu et al., (2010)], it seems that this moment will be delayed to later date which is uncertain at the moment.

However, the key issue is the fact that, for now, from official papers too few effective measures targeted towards providing effective support for companies in order for them to better cope with the difficulties they are experiencing right now can be construed. In our modern day economy, especially in turbulent times, the key word at the root of economic policy making is flexibility.

But this flexibility can only be attained through an increase in the capacity of fast reaction targeted at abrupt changes of situation, the promotion of an increase in value of all domains and the high quality of labour resources.

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FUTURE PERSPECTIVE ON THE EURO AS A GLOBAL CURRENCY

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Abstract

Ten years ago, many EU officials celebrated by abolishing their old, national currency, and embraced the sign of a newer emerging Europe- the Euro. Today, just ten years later, the same people are questioning adopting the Euro, scared by the recent crisis in Greece. 2011 will show the actual dimensions of the economic crisis, provided that austerity measures will be strongly felt and the effects of hundreds of billions of dollars pumped into rescuing financial markets will decrease, leaving room for reality. So, almost certainly, 2011 will be the year to lay the foundation of a strong future Euro, or the beginning of a new Europe without Euro.

Keywords: euro, economic perspectives, global currency

JEL Classification: F33, F34, H12, M21

1. Introduction

Ten years ago, many EU officials celebrated by abolishing their old, national currency, and embraced the sign of a newer emerging Europe- the Euro. Today, just ten years later, the same people are questioning adopting the Euro, scared by the recent crisis in Greece.

When an EU citizen took out cash from an ATM machine in 2000, there was usually an honored feeling, despite the fact adopting the Euro created large scale price increases in their countries. Today if EU citizen has any money to pull out of an ATM machine, there may be a growing interior sensation of betrayal.

Recent trends looks like the eventual downfall of the Euro could continue, as the ECB (European Central Bank) indicated European banks to face a debt-write-off of 190 Billion Euro in the next few years.

This is devaluing the Euro, and diminishing hopes that a supposed recovery in Europe is indeed the reality, and some experts are claiming the Euro could be heading downwards to the value as a much fragile US Dollar.

Many economists are also estimating the death of the Euro. Risk-takers also see a bonus in profits, as unlucky nations may be forced to switch back to their previous currencies.

Future will shows us if Europeans decide unity is worth a devalued currency, or else saving personal wealth despite that unity.

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2. New perspectives of the euro

From January 1, 2011, Estonia became the 17th EU country to adopt the euro. It is expected that the passing from the Estonian kroon to the euro to take place in good conditions, thanks to early planning and good information campaigns.

For two weeks after the changeover, the Estonian kroon and the euro will circulate in parallel, and then the euro will become the only legal tender. To assist consumers in the period July 1, 2010 to June 20, 2011, traders will display prices in both currencies.

Estonia will join the euro area in the middle of the most severe crisis of the common currency. Unlike many other Euro zone countries, Estonia has almost no debt. The public debt amounts to only 7.2 percent of GDP. This is the lowest level in Europe. Estonian economy has started to grow again after a negative trend during the financial crisis.

High debt of Ireland, Portugal, Greece and Spain are causing concern among European economists who claim that they push the euro to the limit of its power. Some of Europe's top politicians talk about the fact that the crisis could mean the end of the euro and even the European Union. Ireland's economic collapse could be "a threat to global economy" as were Lehman Brothers, AIG and Goldman Sachs in September 2008, warned Peter Tapsell, a member of the British Parliament.

Ireland made headlines in European newspapers by the stubbornness proved when refused to accept the financial aid offered by the EU. The support for over 90 billion euro that Dublin official have finally accepted, has brought harsh criticism from the public.

Portugal is showing signs that they might follow Ireland in the debt crisis. Portugal is facing a scenario where it will leave the euro zone if it fails to meet economic challenges.

Resolving the crisis involves two major steps:

1. EU countries that have a good economic situation should support those which are in crisis and
2. Countries receiving aid from the EU and the International Monetary Fund must persuade their citizens to accept austerity measures.

Additionally, those member countries which are not yet in the euro zone, such as Poland, the origin of the European Commissioner for Budget, have noted the situation and, although their objective is the euro, they expect a common power source and not common problems.

Romanian authorities have announced 2015 as the official target for adopting the euro. Analysts believe however that the current target is too ambitious, and Romania will not pass before 2020.

Economists warn that if we stubbornly adhere before being prepared, the effects will be significantly negative. Romania should join the euro zone in 2015 according to the schedule announced by the Romanian authorities, only that the target switching to the euro is questioned by economic analysts given the economic situation in recent years and future developments.

Moreover, even representatives of the European Commission (EC) pointed out last year that Romania did not meet any of the criteria for joining the euro zone, namely price stability, government budgetary position, exchange rate stability and convergence of long-term interest, at same time, experiencing legislative obstacles.

Within the euro zone, the single currency is a means by which governments, companies and individuals make and collect payments for goods and services. It is also used to store and create wealth for the future as savings and investment. Size, stability and strength of the euro zone economy, the second largest worldwide after the US, contribute to the attractiveness of the single currency outside its borders.

Public and private sectors from third countries receive and use the euro for different purposes, including as exchange and reserve currency. For this reason, at present, the euro is the second most important international currency after the U.S. dollar. The extensive use of the euro in international financial and monetary system demonstrates its importance in the world.

The euro is increasingly used for the issuance of debt securities and debt securities for companies. In late 2006, the euro represented approximately one third of the total international debt market and the U.S. dollar 44%.

World banks provide significant loans denominated in euro worldwide. Euro ranks second among the most traded currencies on foreign exchange markets, being used in about 40% of daily transactions.

The euro is increasingly used for billing and payment in international trade, not only between the euro zone and third countries but also to a lesser extent, between third countries.

Next to the U.S. dollar, the euro is used very much as a major reserve currency for monetary emergencies. In late 2006, more than a quarter of existing foreign currency reserves worldwide was in euro, compared to 18% in 1999. Developing countries are among those which most increased their reserves in euro, from 18% in 1999 to about 30% in 2006.

Several countries manage their currencies by their correlation with the euro currency taken as reference.

The statute of the euro as the world currency, plus the size and economic power of the euro zone, highly determines the international economic organizations such as the IMF and the G8 to consider the euro zone economy as an independent entity. This ensures a stronger global position for the European Union.

To benefit from this powerful position and to contribute effectively to the international financial stability, the euro zone is expressed increasingly more often as a single voice in important economic forums. This is the result of close coordination between Member States of the euro zone and the cooperation between the European Central Bank and the European Commission during international meetings on economic issues.

A number of countries and regions outside the European Union are even more closely linked to the euro. Due to the stability of the monetary system which supports it, the euro currency has become an "anchor" extremely attractive to these

countries, especially those that have special agreements with the EU institutions, such as preferential trade agreements. By reporting currencies to the euro, these countries provide greater security and stability of national economies.

The euro is widely used in countries and regions in the vicinity of the euro zone, as in south-eastern Europe, while other countries - Monaco, San Marino and Vatican City - use the euro as official currency on the basis of specific monetary agreements with the EU, being able to issue own euro in certain quantitative limits.

2011 will show the actual dimensions of the economic crisis, provided that austerity measures will be strongly felt and the effects of hundreds of billions of dollars pumped into rescuing financial markets will decrease, leaving room for reality.

This year inflation increased utility prices and financial speculation will strongly affect consumption, and the economic progress will decrease.

"In 2011 we will learn how global economy will do without being kept alive artificially,"²⁷ said Robin Bew expert from the consulting group Economist Intelligence Unit (EIU).

According to EIU estimates, this year, due to austerity measures adopted by all countries of the world, global economic growth will slow to 3.6% from 4.4% in 2010. Change will be influenced primarily by lower global trade by 50% compared to 2010, to 5.7%.

In fact, almost all international organizations, from the World Bank to the International Monetary Fund (IMF) and the main international banking groups, have revised their estimates on the global economy in 2011.

In its quarterly report "World Economic Outlook", recently published, IMF forecast growth of the global economy to 4.8% in 2010 and an expansion of 4.2% in 2011.

For developed economies, the risk of a double recession has reduced considerably, while the emerging economies will revert to the former growth rates, and consumers and governments will work to adjust deficits pushed to record levels during the recession.

2011 will be the year of austerity in Europe. Most states, from Germany, France, Great Britain, Spain to Romania and Bulgaria, will feel the impact of measures taken by governments to reduce the huge budget deficits. In these circumstances, economic growth will be shy, affected by reduced consumption and low public investments.

Economists from the EIU estimate that in 2011, the PIIGS group (Greece, Ireland, Spain, Portugal and Italy) will remain "millstones" for Europe, and Brussels will continue to pump billions to save them.

It seems that austerity will freeze Greece and Portugal in recession, while Spain will be saved almost to the limit, which will see a 0.1% economic progress. Ireland, the second country in the euro zone saved from bankruptcy, will increase by 1 percent in 2011.

²⁷ <http://www.eiu.com/public/>

According to EIU, Germany will strengthen its role as the epicenter of the euro zone, following to basically decide the path of Europe and the euro.

The fact is that Germans have been and will be interested in maintaining the euro and countries with problems, given that Europe is the most important area for its exports, and German banks have substantial exposure to securities of the EU countries. If countries like Ireland or Greece failed, it would mean that the German banking system could collapse, bringing inconceivable consequences for the German economy.

For Romania, the forecasts are reserved. Given that the European Union is our main trading partner and the economic recovery projected for 2011 is based, at least in the view of authorities on exports, the plans for economic progress of 1.5% seem quite ambitious. All this, under circumstances that the consumption in the EU, according to the EIU, could fall by 1.8% in 2011.

At the beginning of the year, the International Monetary Fund (IMF) announced the revised weights for the four currencies that determine the value of Special Drawing Rights (SDRs).

The decision on the amount of each currency in the SDR basket is the final step of implementing the most recent results of the SDR valuation methods.

Table 2. Percent of the four currencies in the SDR valuation²⁸

Wednesday, January 05, 2011				
Currency	Currency amount under Rule O-1	Exchange rate	U.S. dollar equivalent	% change in exchange rate against U.S. dollar from previous calculation
Euro	0.4230	1.32350	0.559841	-1.084
Japanese yen	12.1000	82.13000	0.147327	0.110
Pound sterling	0.1110	1.55940	0.173093	-0.090
U.S. dollar	0.6600	1.00000	<u>0.660000</u>	
			1.540261	
U.S.\$1.00 = SDR			0.649241	0.398
SDR1 = US\$			1.54026	

Source: www.imf.org

From January 1, 2011, the American dollar will "weigh" therefore 41.9% (vs. 44%), the euro will weight by 37.4% (vs. 34%), the sterling pound will "climb" to 11.3% from 11% and the yen will go down to 9.4% compared to 11%). The change of the DST structure will affect the debt borrowed from the Fund, but to a lesser extent, the differences are not significant.

²⁸ www.imf.org

Given that the problems will continue in Europe, in 2011 all eyes are primarily directed towards the United States of America, the largest economy and largest consumer of the world.

Unfortunately, America will not do very well, despite the print of trillions of dollars to restore economy. U.S. will continue to live under the burden of debt, waiting for a recovery in consumption, which will be shy but, influenced by the reluctance of banks to grant new loans.

As we move towards the second half of 2011, politicians and specialists will likely succeed to put the Fed in an uncomfortable situation, being the decisive factors which enabled the U.S. housing debacle whose consequences will be the syncope of the banking system and the catastrophe of the public debt. Meanwhile, banks much too strong to fail will find themselves again in a difficult situation, because their problematic mortgage portfolios will threaten again, their solvency.

The dollar devaluation policy, rooted in the war of coins in 2010, will force emerging markets to use more of their dollar reserves on bonds. In addition, the U.S. is on the brink of "japanizing" its economy, with background inflation on a downward trend. The quantitative relaxation proposed by the Federal Reserve has no positive effect, but relieving the pain of U.S. banks' balance. And do not forget the euro zone, where ECB, IMF and EU fail to heal PIIGS peripheral countries, pushing the anxious investors towards the Uncle Sam's safe paradise. It may be that the "feel-good" factor was growing in the U.S. in late 2010, but disappeared in 2011 and the return on bonds over 30 years will fall to 3%.

The war of coins returns in 2011, fueled by the improving economic situation of the U.S. rather by the need to support economic recovery. The U.S. trade deficit is expanding as the government and citizens' wallet empties. Since the trade deficit grows, President Obama's plan to double exports in five years is increasingly becoming an unrealistic goal that urges ordinary citizen to force the American Congress to opt for a weaker dollar. Pressure builds up in China and, while investors flee to metal in search of some stability, gold rises strongly to 1,800 dollars per ounce.

According to analyst estimates, 2011 will confirm the spectacular progress of emerging powers like China, India or Brazil. American and European investors will be thus attracted by opportunities in Asian countries, Latin America and even Africa.

China's spectacular economic progress will continue, following to record, according to Economist Intelligence Unit, a GDP growth of 8.4%, amid the advance consumption by 22%.

The trajectory of growth in most regions of the world seems healthy for a certain period of time in 2011 - at least outside Europe and Japan. But then the problems start to emerge in China, where the 12 new plan for the next five years, aimed at generating increased consumption, will not work as desired. Given that the Chinese industrial base will grow at a rate very low rate or at all following the change of policies, satellite countries that depend on Chinese demand will see their economies facing severe corrections. This will panic global appetite, and given that

Japan's economy makes great efforts and the euro zone is in disarray, the U.S. dollar will no longer look quite so bad as before. This has been the situation since the market was on short position related to this currency at the beginning of the year. The unfolding of these positions pushes the USD index above 25% to over 100 by the end of the third quarter.

Economist Nouriel Roubini expects the Beijing government to continue to support their exporters by keeping the yuan at a devalued rate, example to be followed by other emerging countries, like South Korea or India²⁹.

The inflation specter threatens China as well. Consumer price index in November 2010 rose by 5.1% per year, an increase of 4.4% in October, according to data published by the National Bureau of Statistics (NBS). In the first eleven months of 2010, the growth was 3.2%, exceeding the 3% limit set by the government. For 2011, China will set an inflation objective of 4%.

China's monetary policy will be more restrictive in 2011. In November, Chinese banks granted loans worth 64 billion euro. The total value of loans in January rose to 841 billion euro, with a threshold set by the government to 848 billion in 2010. To curb this trend, the People's Bank of China (POBC) has already increased by six times the rate of mandatory bank reserves.

Real estate prices continue to grow. The abundance of liquidity in circulation will induce the Chinese to seek investments, especially in real estate. Since April, the government has taken measures for curbing real estate investments, restricting or forbidding loans to buy a third house. However, the real estate bubble continues to swell. A report published in early December by the Academy of Social Sciences showed that one third of the big cities offered apartments with 30% -50% more expensive than their real value. According to the sources, real estate prices rose by 15% in 2010, and 85% of Chinese families are unable to buy a house.

China's priority in 2011 seems to aim at stabilizing the exchange rate for the yuan, not only against the dollar but also against the currencies of other major powers such as the euro and the yen. It is therefore unlikely for authorities to decide a great appreciation for the yuan next year.

Roubini believes that the "star" of 2011 will be India³⁰ with an economic growth of 8.8% compared to 9% in 2010, while China will slow their progress a little at 8.7 percent, from 10% as a result of administrative measures to prevent economy overheating.

The major challenge for emerging markets will be to face a wave of inflation that is to hit the world in 2011, amid massive printing of currency in the U.S. and EU.

²⁹ www.roubini.com/region/country/china.php

³⁰ www.roubini.com/analysis/140742.php

3. Conclusion

With some countries preparing bond issues and exposing them to the test of the markets, the next few weeks will be decisive for the future of the euro. As the European press clarifies, we'll shortly have a clear amount of market sureness in the ability of the most delicate countries of the Eurozone to put their finances in order, as well as on the future stability of the single currency.

And if the euro overcomes the existing crisis, its success will be in part claimed by the Far East economies. Japan and China probably will invest in forthcoming European bond issues. Beijing and Tokyo are engaged in a war of influence both in Asia and in the rest of the world. And this is the circumstance of the Chinese Vice-Premier's triumphal visit to Madrid to announce the decision to buy Spanish sovereign bonds, which recently took place. At the same time, Japan has announced it will buy 20% of the bonds issued by the European Financial Stability Facility.³¹

This bizarre help coming from Asia is based on a reason, which is the least revealed but probably the most important and that is Asia does not want the Euro to collapse. The Chinese are well aware that the 27-country EU trade bloc ranks ahead of the United States as their main market, while the Japanese are preoccupied by the risk of a new „endaka”³² that will negatively affect their exports.

The first month of the year 2011 will remain in history on account of the European Commission who will give its final approval to the EU strategy for smart, sustainable and inclusive growth, which is the first step towards the harmonization of member-state budgets and effective economic government of the EU. So, almost certainly, 2011 will be the year to lay the foundation of a strong future Euro, or the beginning of a new Europe without Euro.

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³¹ <http://www.elpais.com/global/>

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**RETHINKING INTERPRETATIVE PATTERNS
OF LEADERS:
ALBANIAN LEADERSHIP BETWEEN MYTH AND REALITY**

Andri Koxhaj*

Abstract

The actual world crisis is not a financial crisis (as the majority of people believe) but a decision making crisis. Decision making is guided by values and the interrogative point is about the values of actual “leaders”.

This article has the objective to clarify some leadership aspects that must be putted into discussion. One of these aspects is that effective leadership does not suffer in relation to techniques but on the subject of categorical values. Another one is that leadership often bases on image rather than on responsibility and work. A further topic is the rethinking of the dichotomist vision management-leadership, as the classical literature of management has defined.

We know very well that leaders are influent on the context with which interact and considering this we have defined them as relevant suprasystems.

All this issues are contextualized in Albanian environment explaining the colors of Albanian leadership between myth and reality.

This contribution evidences leadership old and new interpretative patterns aiming an improvement not only to the education system but also to the practice of management. Furthermore, is not bounded only in Albanian leadership thesis, but can contribute in multicultural organizations as well.

Keywords: Leadership, Management, Entrepreneurship, Organization

JEL Classification: M10, M1, M16, L2

Leadership: can we define it?

In his movie (documentary) called “*Passion and Discipline: Don Quixote’s Lessons for Leadership*”, presented by Graduate School of Business of Stanford University, James March said that “Quixote reminds us that if we trust only when trust is warranted, love only when love is returned, learn only when learning is valuable, we abandon an essential feature of our humanness”.³³ But why Don Quixote? What lessons can we learn from the fictional 16th-century gentleman who careered around the Spanish countryside tilting at windmills and challenging sheep to battle? Indeed, as March says in the film: “We live in a world that emphasizes realistic expectations and clear successes. Quixote had neither. But through failure after failure, he persists in his vision and his commitment. He persists because he knows who he is.”

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³³ March, J. and Schecter, S. (2003); *Passion and Discipline: Don Quixote’s Lessons for Leadership*, Schecter Films & Stanford Graduate School of Business.

Quixote lived his life with passion and discipline, March says, much as a flamenco dancer performs with seeming abandon, yet acts within the strictures of the art. Leaders can learn from Quixote, whose life was dedicated to imagination, commitment, and joy. “The critical concerns of leadership are not technical questions of management or power, they are fundamental issues of life,” March says.

It is clear that James March speaks about a system of values (categorical values). As we can appreciate, leadership is deeply connected with responsibility, passion, discipline, honest, trust, love, knowledge, creativity, etc. All these are *values* that influence the decision making of leaders and their prospective. But how a leader can decide if he doesn't know himself? And how can decide if he doesn't know the mission? Identity and mission are the essence of leadership and furthermore are not based on exhibition (in terms of image) but on responsibility and work (in terms of substance).

Regarding the Albanian leadership, unfortunately it is deeply based on image. Let's take some examples. The last years, the most profitable business in Albania was the construction. If somebody takes a look to the Albanian capital, Tirana, it will remain amazed by the beautiful buildings. But if we take a deepened look, we will be aware that all that buildings has no sense from the infrastructure standpoint. Not only, but if we live inside them we will understand that electrical and water installations and the general structure criteria are so terrible. The answer is the absence of responsibility roofed by the image.

The same occurs in education system. There is a tendency to obtain more titles you can (bachelor, master, PhD, etc), even though the student's future unemployment is near and certain.

We can say the same in the social life, where people are influenced too much by the hierarchy. Who is dressed with well-known brands, has a beautiful car, is director of a bank and so on, for the majority of Albanian people is the person to be followed (even though that person counts for nothing, has no family and makes an irregular life). Quo vadis Albanians? Are you observing/following the person's attributes (values) or simply the image?

And there is no difference in politics, like there isn't in public administration.

What about Albanian business organizations? An organization is a system immersed in a specific context with which interact and exchange information, money, raw materials and so on. Thus the organization is an open system and as all open systems is influenced by the interpretative patterns of the context with which interact. The problem is the mentality, not the business organization. The mentality (mental patterns) affects all type of viable systems, be them individuals, business organizations, non-profit organizations, political institutions, etc. The real problem is that mentality focuses on image and the image is something speculative. This critic goes not only to Albanian businesses, but also to the international business organizations where the advertising activities of marketing are more illusion than promotion (in a noble sense). The customers need quality, not image. The *quality* needs *responsibility* and the responsibility needs *leadership*. This is one of the essential

reasons why organizations fail. Hence the leadership dream can be transformed into reality through quality and responsibility. Leadership cannot be imposed by “leaders” but assessed and legitimated by the stakeholders (viable sub and suprasystems).

In substance, values and patterns affect leadership style.

Now, giving a definition of leadership is a great and a failed initiative; the best example (definition) of leadership is leadership by example, Jerry McClain said. We cannot understand leadership by definition but only by life postulates.

The first is that leadership is responsibility, is based seriously on values and work rather than on image. The second is that leadership, the same as management, is not focused (only) on businesses, but in everyday life issues and in every type of organizations, in other terms not only on business organizations. The last one, from our point of view, is that leadership arises from *categorical values* (coherence, duty, ambitions, trust, loyalty, etc) rather than from techniques; techniques are necessary and restricted to problem solving, instead values are fundamental for decision making which is a topic strongly related to leaders. Problem solving is used in contexts where the problem that arises is analog with another problem encountered and solved before. It means that we have already the interpretative pattern (the formula) or the solution. What distinguishes a good leader from a bad one is the decision made. But in a complex dynamic environment is not so easy to make decisions through techniques or predefined patterns. Techniques are not sufficient in a complex dynamic context; there is need for intuition and after that for strategic decisions to affront the complexity (variety + variability + indeterminacy)

Dynamism involves leaders in new situations when old patterns are not winning. Leaders have to invent and to use first of all the intuition, sniffing the change and the weakened signals of the context; this is decision making under complexity and uncertainty. Nowadays complexity and uncertainty are the norm of the situations. As we understood, decision making bases prevalently on the values of who is going to make the decision and leaders are involved. For instance, the actual world crisis is not a financial crisis (as the majority of people believe) but a decision making crisis. Decision making is guided by values and the interrogative point is about the values of actual “leaders”.

Leadership versus Management

The title of this paragraph is so polemic and the polemics ascend because of the word “versus”. The first interrogative point is about the existence of the versus position of leadership in front of management. Before explaining it lets take a look to the modern literature about the dichotomy management-leadership.

In one of his articles³⁴ Warren Bennis wrote that management and leadership are distinguished, in other terms they need a dichotomist interpretation. According to Bennis, some of the manager’s characteristics are: the manager behaves like an

³⁴ Bennis, W. (1991); “Managing the Dream: Leadership in the 21st Century”. *The Antioch Review*, 49(1), 22-28.

administrator, is imitator, constant, concentrated on the organizational structure, focuses on control, has a short term vision, asks “how” and “when”, is based more in efficiency rather than effectiveness; at the other hand, some leader attributes are: the leader is innovator, original, creator and developer, is based on people, inspires trust, has a long term perspective, asks “what” and “why”, do the right things (effectiveness).

We know also from the consolidated literature that the management functions are planning, organizing, coordinating, leadership and control. Accordingly, leadership is one of the management functions. If management is a system, leadership is a component of this system or a subsystem. Hence leadership is included by management. Perhaps to understand this logic we must refer to the theory of logical types or system of types³⁵. Simply we have to know which is the class of elements and which are elements included. If management is a class of elements (in this case the elements are the functions of management), leadership will be one of the class elements.

Which is the limit of the traditional viewpoint? The traditional perspective has created, developed and transferred a scheme that excludes managers from leadership. If we treat management and leadership as a dichotomy, we obligate managers to perceive themselves as distinguished from leadership. They will think that leadership is something that doesn't belong to them, and leaders are different persons from managers. Hence, we create tow brands: management and leadership.

Does this dichotomy is productive? Naturally not, because in this case managers will focus on the organizational routines and techniques, and the decisions will have commonly the frame of *problem solving* decision types rather than *decision making* decision types. If managers take into consideration only the patterns that they already have, without creating others, in front of new situations, they will earn a certain failure. Not all the problems are analog with the problems of the past. In this case we cannot use a predefined formula, but we have to invent a new one. The classical literature classifies the manager as a person who maintains a certain status-quo. This is not the meaning of stability or identity under uncertainty, but the inability to innovate. Nowadays, considering the complexity degrees of the environment, innovation is not an optional but a requisite. And creating a new scheme is typically a decision making act, like as applying a “formula” that we already have to a problem that we have encountered before is typically a problem solving act. Complexity pushes leaders to make decisions; certainty pushes leaders to solve problems. Hence managers will be able to be decision makers and problem solvers, living in a range that expands from complexity to certainty. This is the managerial leadership.

Concluding this paragraph, leadership is one of the management functions. If a manager is not accomplishing appropriately this function, it means that he is not doing effectively and efficiently his task.

³⁵ Whitehead, A.N and Russell, B. (1910); Principia Mathematica, vol. 1, Cambridge University Press.

The leader as a relevant suprasystem

For a business organization exists different customers, like suppliers, logistics providers, consumers, etc. An important category of customers that sometimes businesses forget is that of opinion leaders. The opinion leader has the power of influencing other people. Examples are the pharmacists. When you have a stomach sting, you go to the pharmacy and ask which is the most appropriate medicinal for your problem. The pharmacist recommends you the medicine where has the biggest gain and you don't argue over his opinion, except some cases in which the customer has not informative asymmetry. However, in this case the pharmacist is influent. But if you have a stomach hemorrhage you need an urgent surgical intervention. In this case you cannot negotiate about the intervention because there is no time to spend. For this reason the surgeon, differently from the pharmacist, is more than influent; he is critical and the criticality derives from the necessity to survive.

From the examples above we understand when a viable system (pharmacist, surgeon, organization, individual in general) is influent and when is critical.

Influence and criticality are the two dimensions of *relevance*. In other terms, relevance is a latent variable which cannot be observed directly and which can be measured through critical bearing and influence variables. Relevance is an attribute of viable systems.

A viable system is a system that survives, remains united and is complete; it is homeostatically balanced both internally and externally and furthermore has mechanisms allowing it to *grow* and *learn*, *develop* and *adapt*, and thus become increasingly more effective in its environment.³⁶ Viable systems are open systems³⁷ (partially opened) and contextualized, because to grow, learn develop and adapt, they need to be open toward a specific context, with which exchange energy, raw material, information, money, etc, interacting with *subsystems* and *suprasystems*.

A suprasystem is a system projecting its own expectations on another system, which thus become a subsystem. A subsystem is a system which, in order to adequately remunerate the resources used by the suprasystem, feels the need to generate and maintain high levels of consonance and resonance with the context.³⁸ Regarding the relation suprasystem-subsystem we can say that the first stands at a superior level (is an L+1 system) and the second stands at an inferior level (is an L-1 system). An example is the human resources that stand as a subsystem of the organization. The organization itself is contemporaneously a suprasystem of human resources and a subsystem of the society as a whole. Viable systems enjoy the recursive property; at the same time one system include and is included by other systems.

³⁶ Beer, S. (1981); *Brain of the firm*. 2nd ed. New York: John Wiley & Sons;

Beer, S. (1985); *Diagnosing the system for organization*, John Wiley, New York, N.Y.

³⁷ von Bertalanffy, L. (1968); *General systems theory. Foundations, Development, Applications*, George Braziller Inc, New York.

³⁸ Golinelli, G.M. (2010); *Viable Systems Approach: Governing business dynamics*. CEDAM, Padova.

What about a leader as a suprasystem? A leader is a person who has some features by which exercises relevance. The relevance dimension of leadership is not objective. The leadership relevance is determined by the individuals that follows the leader. The followers (in sense of people led) are qualified as subsystems of the system-leader (in this case as a suprasystem). If we reflect deeply, the relevance of leader depends also on the relevance of the people that is guiding. Sometimes leaders are preoccupied about the increased relevance of the people they guide because they fear a possible substitution. This happened in Albania with the dictator Enver Hoxha that eliminated one by one a part of persons around him. This succeeded because the dictator was afraid of the increased relevance of his “partners” (ministers and others).

The general media of actual leaders don't like an homeostatic relevance. They want a superior relevance. For instance, in Albanian organizations leaders want the spotlights only on themselves. It doesn't matter which are the people that surround the leader. Important for Albanian leaders is that people (followers) are sheep and ignorant. In this situation they can drive better.

Anyway people will not be drive but guide and the spotlights should be on them; leaders must stay at the backstage doing their work without thinking about the personal image.

These mental models affect all types of organizations. We said before that leadership isn't only business leadership. However, in Albanian businesses leaders are authoritarian and the delegation of various functions is an exceptional situation.

But a successful leader knows well that he/she is a *zoon politikon*. When Aristotle called man a political animal, he did not have parties and elections in mind. Man is a *zoon politikon* in the sense that the polis, the “city-state”, is the natural culmination of man's nature; it is his end, as far as social organization goes. Not that all men live in cities. First comes the family, which arises out of biological necessity; next the tribal village in which man may more easily obtain the necessities of life than in the family alone. The city may come into being thereafter, so that man may pursue, in leisure, his highest nature. As Aristotle says in at the beginning of his *Politics* “every city is a kind of association, and every association is joined together for the sake of some good.” And further, one good on account of which cities are established is justice — “for rules of justice are the organizing principle of political (i.e., city-based) association.”

In other terms leaders, as all human beings, are “islands” and cannot survive without the presence of the others. Every leader is a “minus” and his being can be recompensed with the “plus” of the context with which interact. This is what Maslow intends to explain in his hierarchy of human needs³⁹. The concept of *zoon politikon* is more evident from the third scale of Maslow's pyramid, the social needs. Leaders to accomplish their mission must interact/socialize with other systems. During the socialization process they need to be esteemed by their followers aiming, finally, the self-actualization.

³⁹ Maslow, A. (1954); *Motivation and Personality*, Harper & Row Publishers Inc.

Concluding this paragraph, it's right that leaders must be relevant suprasystems, but it is also right that relevance couldn't be a derivate of exhibition/image, but of work, good examples, responsibility and values. And a good leader should not be afraid by the increased relevance of his followers. If the relevance of the followers increase, it is due the leader's lessons and the values transferred. It means that the follower have been good apprentices. This would be the leadership scope: the continuous improvement (Japanese call *kaizen*) of business (and not only) contributes through the continuous improvement of his followers. There is no doubt that the followers' kaizen can be achieved through serious training/coaching from leaders.

A synthesis of leadership style in Albania

Now we are going to talk about the Albanian organizations in terms of leadership and leaders. In his "*The Human Side of Enterprise*"⁴⁰, Douglas McGregor (1960) affirmed that leaders must choose between two, and only between two ways of human resources management – "theory X" (authoritarian, repressive style, tight control, no development, depressed culture) and "theory Y" (liberating and developmental; control, achievement and continuous improvement achieved by empowering and responsibility) – concluding that only "theory Y" is that right. But in his "*Eupsychian Management*"⁴¹, some years later, Abraham Maslow (1962) demonstrated that McGregor was wrong, and that different types of persons must be leaded in different styles.

In Albania, what is more evident is that the leadership style is nearby of the McGregor's "theory X". The majority of managers in our country believe that workers generally not only welcome the control, but they need it. Considering the manager opinions, workers preferred to avoid the work. They achieve goals only under pressure. Is evident the leadership style based on centralization and accented hierarchy.

Leadership styles are often created from the influence of organizational factors like the nature of work, organizational values and national culture. In Albanian reality organizational values aren't known by all organizational memberships, especially by leaders. This happens because the majority of Albanian organizations don't have a specific defined mission. It is a task of leaders to define the mission and the last one influences the organizational culture, the leadership style, the communication and the organizational behavior.

Organizations are cultural phenomenon and the internal side of them can be viewed as an activation of a shared reality.⁴² Creating a shared reality means consonance (interpersonal harmony). The same concept is underlined by Tom Peters and Robert Waterman (1982) in their famous book "*In Search of Excellence*"⁴³. They

⁴⁰ McGregor, D. (1960); *The Human Side of Enterprise*, McGraw-Hill, New York.

⁴¹ Maslow, A. (1965), *Eupsychian Management: A Journal*, Irwin-Dorsey, Homewood, III.

⁴² Morgan, G. (1997), *Images of Organization*, 2nd ed., Sage Publications Inc, California.

⁴³ Peters, T.J. and Waterman, R.H. (1982); *In Search of Excellence*, Harper & Row, New York.

put into evidence that successful organizations know how to develop a cohesive culture based in a series of shared norms, values and concepts able to define in an appropriate manner the business strategy.

Another important aspect is the motivation of workers which is really low. Managers do not involve subordinates in autonomous decisions and responsibility. To do this, the *forma mentis* must change from individualistic to collaborative. The problem is that Albanians doesn't know to play in team; ours is an individualistic society. There is an explanation: the collaboration between individuals starts when physiological needs and safety needs are satisfied. Positioning the Maslow's pyramid at the macroeconomic level we understand that Albanians are still researching the satisfaction of physiological needs and safety one. In this situation people become more individualistic and materialistic because they fight for the survivor. The problem of the autocratic leadership style is not a problem of organizations, but a problem of Albanian mentality as a whole. Things and managerial style in formal organizations, profit or non-profit, private or public, will change where people will behave differently starting from informal organizations. To behave differently individuals must think differently. Changes will start from individual's thoughts, communications and their behaviors with family and friends.

In other terms, Albanians need a change called change of type 2 (change-2)⁴⁴. The difference between a change-1 and change-2 is that in the first case the change is verified internally of a considered system that remains immutable, while in the change-2, when occurs, changes the system itself. For example when a supplier-X changes frequently the price of the raw materials and the producer negotiates frequently with him to maintain the equilibrium, it means that the producer is applying a change-1 because the activated system (supplier-producer) remains immutable. The system itself will change when the producer will decide to substitute the supplier-X with another supplier (for instance, the supplier-Y); at this moment we will have a change-2.

The actual Albanian leadership style is a succession of old mentality and a common result of the actual status-quo mentality. There is a need for a change-2.

The last point we need to clarify is that "leadership is not a trend, and furthermore is not a charisma. It's banal and not too much romantic. In substance is performance."⁴⁵ These are the words of the father of modern management, Peter Drucker. From this angle derive that the crucial question is: "What's the leadership scope?" The effective leadership is not related with the charisma, or if it's related, the charisma surely isn't the finality. The effective leaders know well that universe will not be dominated by them.

⁴⁴ Watzkawkick, P and Weakland, J and Fisch, R. (1974); *Change: Principles of Problem Formation and Problem Resolution*, Norton & Company.

⁴⁵ Drucker, P.F. (2001); *The Essential Drucker: The Best Of Sixty Years Of Peter Drucker's Essential Writings On Management*, Harper Business, New York, N.Y.

First of all leadership is work. A good leader fixes the objectives and the priorities maintaining the standards.

The second condition is that leaders must perceive the leadership as responsibility rather than prestige, image and self-advertising (like in Albanian country). Effective leaders encourage, motivate and collaborate with the staff without having the fear that the staff will be more effective than the leader itself. Sometimes occurs that the pupil become more effective than the professor, like the son become more effective than his father; this should be considered as leadership satisfaction, not leadership frustration.

The final requisite of effective leadership is to acquire the trust of the others, otherwise the leader will have no followers (in a noble sense) and the unique definition of a good leader is the person that has (conscious) followers.

If the characteristics of a good leader are those we described above, general media of Albanian organizations (and not only) has no leaders.

RELATIONSHIP MARKETING – THE KEY OF THE SUCCESS IN BUSINESS

Diana Soca*

Abstract

The sincere and open orientation towards solving the customer's problem is the key the manager uses to open the door to success. In business there are only two ways to create and maintain a long term superior performance: an exceptional customer care and a constant innovation.

Keywords: Relationship marketing, customer fidelization.

JEL Classification: M31, M37

The relationship marketing means the attraction, development and maintenance of relationship with the customer, placing the customer in the center of attention as an individual person. Finding new customers and retaining them are activities that lead to profit because the clients are continuously extending the shopping area transmitting fortunate information about the company.

The relationship marketing appeared in the context of capitalist economy evolution, when some marketing concepts became inoperative and it was felt that a renew of the consumer's contact methods was needed.

After the second world war, the oriented to production economy developed and it was characterized by an increase of demand over supply; in consequence, everything that had been produced was purchased no matter the products quality or quantity.

In 60's when the economy was aiming towards distribution, the demand equals supply and the production was pointed to what can be sold. By the "push" marketing techniques (bringing the products to consumer) will also appear the "pull" marketing techniques (attracting consumer to product).

In 70's the market economy appears as a consequence of the increase of supply over demand and in the same time the marketing oriented to creating markets dedicated to each product is developed. Now multiple forms of publicity appear and sustain the retail chain performance. The purchasing power raises regularly, high price is synonym to quality and the brand guarantees the social status.

In the middle of 1980 the tendencies are inverted and the organizations start to adopt the marketing oriented to promotion: sell more at the same price.

The characteristics of oriented to promotion marketing are: increase significance concept of the quality – price relation, the factories brands are losing the monopoly; the distribution brands and the "no name" products emerge; the services businesses start to develop their own marketing.

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At the end of 80's starts the environment economy in an ecological sense that manifests on social, political, ethnic and religious plan. Within this economy the traditional marketing becomes inoperative, the purchase power clogs, the importance of environment factors rises and the relationship marketing appears.

According to experts, the relationship marketing is a process with which the retailer and buyer establish a long term profitable, personal, professional and bilateral relation.

In this way, the relationship marketing leads to the creation of a stable partnership between customers and providers, beneficial for both sides, to relationship personalization between parts and to beneficial results from a pecuniary and functional point of view.

The concept of relationship marketing is based on three approaches theoretical distinct but under interdependence:

➤ A first approach is realized in terms of behavioral expectations . It is based on a change of attitude of the trader ties with its suppliers of resources (human, material, financial), with the recipients of its benefits (clients, customers) and with its own personnel. Behavioral dimensions of these partners are judged to a lesser extent in terms of reaction time, and increasingly by the duration of their effect, materialized in trust, satisfaction, loyalty to the company and its services. Customer satisfaction occurs when expectations were met. If the maximum level of satisfaction is reached, that leads to an increased customer enthusiasm. The process of developing endearment for a company / product / brand is lasting and involves several stages that follow each other sequentially, starting from loyalty and even reaching exclusiveness in exchange relations between market players.

➤ A second approach is realized in terms of networks theory. The network company's links with its providers and beneficiaries focus on the interactive nature of the relations developed in relationship marketing from an organizational point of view. The company's organization chart will include staff positions involved in collecting, processing and systematic analysis of information regarding the types of partners. Companies no longer remain like separated players on the scene called market, but become components in more systems (research, production, distribution, services, etc) with multiple sides, complex and long term, called networks of relationships. In the same time clients do not remain passive recipients of the company's benefits but are in many cases directly involved in its concept and creation process.

➤ The third approach is based on management, causing changes in human relations management plan within the company, but also in relation to third parties. The central role in this approach is played by the internal marketing. This is defined as a systemic optimization of the company's internal processes with the help of marketing tools and human resources management to impose marketing as an internal way of thinking in a consistent orientation towards the customers.

Synthesizing the three approaches we can say that relationship marketing is a concept with multifunctional and integrative valences. Relationship marketing creates premises for the development of interactive marketing.

One of the defining characteristics of the customer relationship in relationship marketing is the latter's involvement in meeting its own needs. Technical support is provided by what Philip Kilter called digital revolution.

The relational marketing opens fields for some applications of more tinted classical marketing activities, representing in essence, a continuity of the latter but conferring new chances of success in the way in which the supply meets individualized requirements of demand.

Relationship marketing induces new elements in a business success. They relate to:

- Increasing the training capacity of all market players in a series of long term relationship interrelated in a systemic manner.
- participative involvement next to producer of the bearer of demand in the planning of goods and services intended to meet their needs.

The company that adopts the concept of relational marketing aims to:

- identify and know as good as possible, its own clients
- continuous monitoring of the customers' satisfaction degree
- act in the direction of risk reduction and uncertainty perceived by the customer regarding his choice.
- undertake the necessary for cultivating customer loyalty for long term
- ensure a complex satisfaction of demand considering the client's present and future benefits
- militate in favor of the client endearment process related to the company's performance and to conduct him to exclusivity in the buying and consuming behavior.

Nowadays, the relational marketing represents a real business philosophy, a strategic guidance to focus on preserving and improving relationship with the current customers rather than attracting some new customers.

Consumers become partners and the company must make long term commitments to keep the relationship through quality, services and innovation. The forms of expression in service quality, relevant for the construction of a preferential relations are:

- a) Fairness - is the provider's propensity to listen to problems, customer's objections and submission of complete information about the services offered
- b) Marketing from person to person - refers to actions taken by the provider, where every customer is treated as an important segment of the market, assuming communication in both directions in order to evaluate the correct perception of the service, changing consumer desires, and applying an efficient management based on new ideas and personnel motivation.
- c) Continuous improvement of the services - refers to the completion of services with other supplementary services in order to increase the offer's attractiveness, which all together must be financially feasible, to have value for customers and to be difficult to imitate by competitors.

In the table below I have summarized some differences between traditional marketing (also called transactional marketing) and relationship marketing:

Transactional Marketing	Relationship Marketing	Mentions, arguments, observations
The disappearance after the business	Negotiations to obtain a win-win type of sale and monitor the transaction as a source for better results	Adopting the win-win type of sale the company has the chance to extend the partnership after the business
“Push” type of price	Promoting the value	
Short term action and reflection	Long term action and reflection	
Rising of business through transactions	Rising the business through relations	By addressing a business through the interpersonal relations point of view it is far more likely to strengthen the business
Attracting new customers	Retention of existing customers	
The absence of a structure for further business	Creating the structure in order to strengthen the relations of partnership; the creation of clubs or groups of members for regular buyers	Creating member clubs for regular buyers, the company aims to build a loyal client relationship with impact on business consolidation and security
Focus on sale	Partnership oriented on results	
Short term empathy	Long term relations and empathy	
Encouragement on business achievement	Encouraging revenue and long-term relationship	
The result of sale is the most important	Fast, safe and sustainable Results leading to build relations	
Post sale services and support seen as cost generators.	Post-sale services and support, seen as an investment in relations	Investing in relationships the service provider also invests in the company’s future.
Focus on product/service	Focus on expectations /awareness of customers	

Encourage rewarding for the end of business	Encouraging the rewards to maintain and strengthen relations	
The end of business means the search for a new one.	A sale means a beginning, the target is long term results and business	

The orientation of some organizations to relationship marketing brought to the forefront the concepts of loyalty and regaining lost customers.

Customer fidelization is a strategy that identifies, maintains and enhances the efficiency of the best clients through a value-added, interactive and focused on the long term relationship.

We can say that acquiring loyal clients is the most remarkable advantage of relationship marketing.

Not incidental the marketing services and the interorganizational marketing domain (business to business marketing) have provided favorable conditions for developing the concept of relational marketing. By their nature and characteristics the services require a longer duration of contact between supplier and buyer, allowing the creation and the strengthening of long term relationships, with beneficial effects for both sides. On the other hand, the object of the interorganizational trades has an average degree of complexity, higher compared to those made on the consumer goods market. This increased complexity requires engagement of a greater number of partners in exchange operations, which allows the creation of networks using these links.

Also, on the Romanian services market, especially in areas where competition is strong, such as banking, telecommunications, healthcare, tourism, etc. the companies are concerned about the migration of customers and how it can be stopped through customer loyalty.

In banking for example, the chief economist at Erste BCR, the leader of the banking sector in terms of assets believes that customers migration is a normal trend in Europe: "Studies conducted in Europe show that all bank customers are becoming increasingly less loyal. That's why banks will have to put more emphasis on loyalty programs, shifting from an extensive to an intensive development. "

The President of the Romanian Association of Financial Banking Analysts considers customers infidelity as a motivating factor for any credit institution, a booster of the competition.

A strength loyalty product of the BCR is the services package that includes a current account, a debit or credit card and the option of accessing a bank overdraft. The package also contains money transfer services to the savings account, phone banking services, e-banking, bank statements and cashless payments.

Other Austrians, the Raiffeisen people, have speculated on a method first used in the U.S. but also in EU member states : reward customers with good payment behavior.

Raiffeisen is approving pre-approved loans to this type of customers so they can get additional funds paying the same monthly rate. "The best and most loyal of customers will be able to obtain larger bank, faster and easier," said bank vice president at the launch of these facilities.

The Raiffeisen Housing Bank took as well into account the customer loyalty. RHB president, said that although the specifics of the institution he leads is one of the niche, keeping the customers is not omissible. One method to acquire loyal clients is through loyalty-related services, the bank trying to meet the needs of individual customers through a direct approach, the aim being the efficient bidirectional communication (specialized call center, direct mail, website updates, newsletter).

Currently RHB has also other customer loyalty tools such as development of services range, (products addressed to specific category of clients: taxi drivers, people with income earned abroad, notaries, doctors) rewarding the customers who recommend other clients, providing complete information. Moreover, to promote some facilities, the bank already has partnerships with the National Union of Real Estate Agencies and National Housing Agency.

The people at Uni Credit Tiriac were also interested in customer migration. Bank's portfolio contains products that bring together a number of current accounts, Visa or MasterCard, partner cards, online banking and support services designed to meet a higher level of satisfaction for a potential customer.

Those who buy these package of products get a lower price benefit (the costs can be two / three times lower) than if they opted for separate purchase of products and services.

Other methods used to build a loyal client relationship are:

➤ Creating clubs with access only to customers who can demonstrate loyalty to the organization (for example the pharmaceutical company Walmark that opened Health Club Walmark which allows its members on a membership card basis to receive promotional materials and gifts, to receive discounts, to launch online ordering. The members of the health club can also use a free phone number for any information and can receive responses from a medical consultant).

➤ Awarding points or winning bonuses to customers who shop frequently, aiming the growth of sales (e.g. Vodafone company, through the program "Vodafone for you", Sensiblu pharmacies, Cora hypermarket etc.)

Conclusion

A company must know how consumers perceive quality and what they expect to receive. In these circumstances the company should try to offer more in terms of quality than its competitors.

The objective of a successful company must exceed the customer satisfaction. Companies need to delight consumers. A happy customer is the most effective promotional tool.

That is why it is necessary to understand the consumer, because a relationship involves not only a part and you can not require friendship, loyalty and respect without having to return them.

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THE INTERNATIONALIZATION PROCESS AND THE ASSET-LIGHT APPROACH

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Abstract

Today, regarding all industries, nothing is meant to last forever. If we look at industry trends in terms of corporate strategy, we clearly notice that most major companies are gearing toward an asset-light approach to remain competitive

The internationalization process has determined companies worldwide to find solutions to minimize transaction costs and the expansions costs on foreign markets.

In the maturity stage of the internationalization process, many companies from various business sectors, have chosen the "asset light" approach, a business model focusing on minimizing "in-house" resources and maximizing usage of outsourcing opportunities

Keywords; internationalization, asset-light approach

JEL Classification: M14, M16

1. Introduction

The tariff reduction and economic globalization makes all kinds of resources flow more freely around the world, the global economy is bound to undergo major restructuring of the industry chain. This paper presents that the companies worldwide can use asset-light operating strategy to focus resources on product design, R&D, sales, service and brand promotion a high-profit industrial chain stage and to establish a competitive advantage for those companies.

"Asset light business model", also known as "virtual business model", is about to outsource its non-core strengths, relying on supply chain service providers to conduct rapid expansion of sales channels, their focus on the design and marketing to a much shorter time, less capital and fixed assets, the development of faster and earn more lucrative industrial profit chain link. After you understand this principle to know, who will be their core strengths of non-chain outsourcing industry, and focus on their core strengths of the operating mode are called asset light business.

As the industry division of labor in-depth and non-tariff barriers increasingly weakened the flow of assets, also has become increasingly frequent and more closely inter-firm division of labor, business to their respective advantage of the area to pool resources, industry restructuring continued to deepen. The relationship between business parties to the transaction is no longer confined to trade relations between ordinary sense

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of the way or by linking a series of investor relations, and more is included strategic alliances and other forms of technical cooperation, and OEM relationships, including diversity, which is directly it has generated a new business model - asset-light business model.

The so-called asset-light, as opposed to the re-occupy a lot of money in terms of assets, including the experiences of enterprises, standardize the process management, corporate branding, customer relations, human resources, and equipment, plant, and raw materials than the occupation of these assets costs less but seem light and flexible, so called asset light. The asset-light operations can be understood as follows: under conditions of limited resources, leverage the use of other resources to the lowest input to achieve the Strategic Management of maximizing shareholder value.

The core idea of asset-light operations is to leverage the full use of external resources, to reduce their own investment, focus their resources on the most profitable stage of the industrial chain to improve corporate profitability. Asset-light business model to compete with the traditional theory, the major difference is that: the traditional competition theory is based on low-cost or differentiation to gain market share and volume growth in a competitive fundamental, while the asset-light business model is based on customers and profits to think about competitive strategy as the central, most concerned about the client's values, high-profit industrial chain stages and leverage the use of other resources, maximize shareholder value.

To asset-light model of expansion, and self-compared to the slow accumulation can get more profitability and a faster pace of development. In fact, it was determined to give up because of the need to spend a lot of money and the low value-added of heavy asset management links, companies such as Nike were able to move forward with ease and rapid development, and become the world's leaders.

2. Examples of companies implementing the asset-light approach in their internationalization process

Almost two years ago, Motorola said it would outsource 50% of its CMOS semiconductor manufacturing, a strategy the company dubbed "*asset light*." As the first phase of its asset-light strategy, Motorola announced a major manufacturing consolidation and the elimination of many internal manufacturing jobs.

Execution of this strategy has resulted in SPS today operating only 10 of its original 28 manufacturing facilities. Motorola reinforced this strategy by cutting capital expenditures for SPS dramatically in 2002.

Recognizing the need for advanced technology, Motorola in March 2002 entered into the Crolles2 Alliance with STMicroelectronics, Philips, and Taiwan Semiconductor Manufacturing Co. Ltd. (TSMC) for the development of next-generation technology at 90nm and smaller geometries. This alliance augmented Motorola's internal manufacturing capability at its MOS-13 fab in Austin, Texas.

These moves successfully slowed the bleeding from SPS's bottom line. After losing \$1.3 billion in the first half of 2002, SPS only reported a loss of \$125 million during the first six months of 2003 on a 5% decrease in sales.

iSuppli believes that if SPS is to become a successful spin-out that can profitably manufacture and sell high-value semiconductor products, it must continue down the road of manufacturing consolidation. The present trend among semiconductor Integrated Device Manufacturers (IDMs) is to consolidate older facilities and relocate them to lower-cost manufacturing regions.

Dow Chemicals Company was keen to implement the asset-light strategy for its chlorine business after completing ethylene and styrene.

On implementing the *asset-light strategy* for basic chemicals, Andrew Liveris, company's CEO, stressed that he was "not in a hurry to get it done at the wrong valuation" especially as the business generated an EBITDA of 1.7 last year.

"That is in a trough, demand led trough and great recession of all time. So we know we have a very high performing asset. The partners we are talking to are all strategic. There is three of them," he said.

Dow Chemical is continuing its series of divestitures as part of its effort to become a more asset light business. This will limit the company's reliance on raw materials and aid in paying the debt from its acquisition of Rohm & Haas. Dow has achieved US\$118 mln in savings by leveraging supplier contracts between Rohm & Haas and Dow.

Dow's Union Carbide Corporation subsidiary will sell its ownership stake in the Optimal Group of Companies to Petronas for US\$660 mln.

Dow agreed to sell an acrylic acid and esters plant and the North American unit of its UCAR Emulsion Systems specialty latex business to Arkema for US\$50 million. The sale was required to comply with Federal Trade Commission requirements following its purchase of Rohm & Haas.

Dow has announced the US\$1.7 bln sale of Morton Salt, expected to close in the second half, sold its calcium chloride business to Occidental Petroleum for US\$210 mln, and signed a deal to sell its stake in Total Raffinaderij Nederland for an expected \$725 million, also expected to close in the second half of 2009. Dow also recently announced it was closing three ethylene-related plants in Louisiana to cut costs and focus on specialty chemicals production.

In China, the company is collaborating with Shenhua Group (the country's largest coal mining company) to improve catalyst efficiency to allow viable conversion of coal to olefins. Dow is also seeking to expand its R&D presence in Asia, adding 600 jobs in Shanghai by the end of 2007, and the company may open up a large R&D center in India.

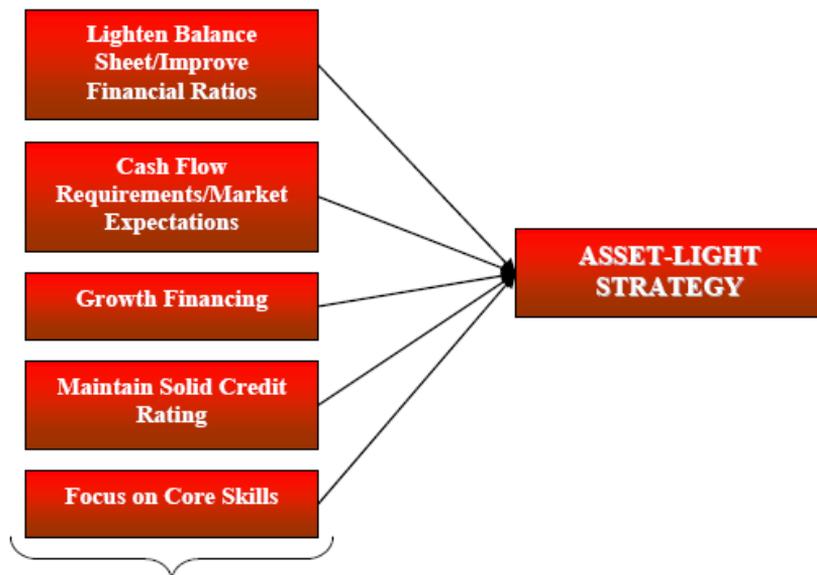
The joint ventures planned for Asia are typical of Dow's *"asset-light"* approach, which works by offering a combination of intellectual property and money in exchange for a share in a world-scale production facility. At the same time, the company is considering selling a share of some of its existing assets in order to free up cash.

Maintaining a low debt-equity ratio helps these companies preserve their investment-grade credit ratings and increases their debt capacity in order to finance future projects, thereby strengthening their financial flexibility. Furthermore, to

finance their growth, hotel companies prefer to use internally generated funds rather than debt. In this respect, major *asset-light companies* do not really need the public equity markets to grow. Their capital requirements are usually low, even if they occasionally require minority equity investments to “purchase” management contracts. This means that the logic for being public with regular access to the equity markets is less compelling.

In Europe, the asset-light strategy has been a popular way to unlock capital by selling the asset while ensuring control with long-term leaseback and management agreements. During 2005, a number of both single-asset and portfolio transactions involved the use of management contracts.

Exhibit 1. Operating companies value drivers affecting asset disposition



In the hospitality industry, hotels such as Hilton’s or Merriott are applying successfully asset-light business model. As the markets are getting more and more comfortable with the hotel industry, we can wonder how long hotel operating companies will be listed on major exchanges and if privatization is likely to continue since “size” doesn’t seem to matter anymore. The question is whether hotel companies, given the asset-light strategy, are good businesses to be owned by the public markets.

According to Mark Abramson, if companies take the asset-light approach to its furthest logic, they would find (in most cases) that the remaining hotel management businesses do not have sufficient scale to be fully valued as public companies. A hotel operating company that is completely asset-light needs to have such a large number of hotels under management in order to have the cash flow and valuation sufficient to be listed in a major exchange (e.g., NYSE) that this is unachievable in all but a small number

of cases. So a pure asset-light company will never be valued to its fullest as a public company. "For private equity firms, this means increased interest rates and less-favorable repayment terms, which strikes at the heart of the deal in leveraged buyouts. If nothing else, private equity firms will have to reach deeper into their pockets or face a slowdown in deal velocity.

Thus, the near future of the debt markets will be a major determinant in whether private equity firms will continue to seek out new investment opportunities in the hospitality industry as the major hotel companies continue their asset-light poker play.

3. Conclusions

Regardless of the internationalization method, we see within the analysis made on the basis of examples of large companies, that the asset-light approach is a business model that can be applied in the maturity stage of the internationalization process. Companies which apply this business model must have capital, market awareness, negotiation skills and possess know-how.

The theories of industrial organization and strategic management describe necessary conditions for firms to obtain a sustainable competitive advantage, and suggest appropriate strategies for corporations to obtain superior financial performance

The fundamental question of such theories is the utility in developing meaningful management tools and actionable strategies for their practitioners.

Although asset-light business model is not new, it has not been defined properly in the literature and at a brief analysis it seems multisectoral, applying to big companies, regardless of sector.

In a dynamic environment, where companies seek competitive advantage, asset-light approach becomes increasingly used, especially by companies that invest in Asia or the Middle East.

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BOOK REVIEW

Walter Block*

**DESTINED FOR FAILURE: AMERICAN PROSPERITY
IN THE AGE OF BAILOUTS.**

Santa Barbara, CA: Praeger. 224 pages, 2010

by Sanchez, Nicolas, Christopher Kopp and Francis Sanzari

It is a pleasure to write a review of this book (by the way, this will be a *very* unorthodox book review, see below). Full disclosure here: Nick Sanchez is an old and dear friend, and a former colleague of mine when we overlapped, for six years, 1991-1997, as professors of economics at Holy Cross College.

One of my own contributions to student development is that I have co-authored numerous refereed articles in scholarly journals with members of my undergraduate classes. Well, Nick has done me one better in this regard: this entire *book* is co-authored with two of his undergraduate students, Christopher Kopp and Francis Sanzari. This must surely be a rarity in publishing. Indeed, I know of no other case where a professor has co-authored a full length book with undergraduates. I really regard this as a stupendous accomplishment. My own articles with students take up anywhere from 10 to 20 published pages; this is an *entire book* stretching on for 224 pages. These student co-authors of his must be very exceptional young men.

As to the book itself, it will be a welcome one for Austro-libertarians, even though Sanchez is not himself a member of the praxeological school of economics. First and foremost in this regard is his brilliant Keynesian bashing.

Full stop. I am now no longer continuing to write a review of this book. True confession here: I wrote the previous sentence before I saw any Keynesian bashing in the book. At this point I started to look for some; I found very little. That is one of the reasons I stopped writing the review. In my defense, I am now unburdening my soul. Yes, sometimes, as in this case, I write before I know what I'm talking about. But, that was only a *first draft*. My critics may charge me with doing this in publications, too. However, as far as I am concerned, I really do try to clean up matters of this sort before going into print. So, as I say, I am now leaving off writing this book review.

Instead, gentle reader, I am now directly addressing you. Consider this a side note, off the topic of the book review, at least for the moment. I got this far in the book review, and I just couldn't continue. Hey, I *told* you that this would be an unorthodox book review! At this point, I wrote a letter to the main author of this book, Prof. Nick Sanchez. Here is that letter (a hint to those who might become

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confused as to who is communicating, me or my now debating partner, Nick Sanchez, the author of this book; when I write, I indent my paragraphs, as above; when I transmit material written by Nick and sent to me, I do not indent paragraphs):

Dear Nick:

I started to write a review for your book. See attached. I had a very positive opening, and, then, I got stuck. I wanted to say, for the most part, nice things about your book, and, only, at the end, say something to the effect that not everyone can agree with everyone else on everything, and here are a few disagreements I have with the authors. And conclude by saying that despite these minor disagreements, I highly recommend the book.

But, in all honesty, I couldn't. I didn't realize how different your and my political economic philosophies. I'm an Austro libertarian; I've been called a free market fundamentalist, with good reason. I regard Milton Friedman as barely better than a commie; if I had to characterize your views, it would be that you are a Friedmanite; a very moderate supporter of free enterprise. You like Coase. I've written over a dozen articles criticizing as worse than a commie. I'm serious. Most of the people you regard as heroes I regard as villains. You never even mention any of the people I regard as heroes. I favor the entire elimination of the Fed, of public schooling, of government regulations such as anti trust. I see unions as criminal gangs virtually per se. I favor the entire separation of the state and health, welfare, education. Heck, I'm an anarchist, an anarcho capitalist. I reject the entire notion of "public goods." Thus, virtually all of my review would have been highly critical. There are only a few chapters on which I overlap with you.

Now, I'm still willing to write that review. But, I don't relish the thought of ripping into your book. I regard us as friends; you were my biggest supporter, by far, at Holly Cross. Why should I write a scathing review, the only honest review I can write? On the other hand, if you relish this sort of thing, I will write an eviscerating review.

Best regards,

Walter

And, dear reader, here is Nick Sanchez's response to my letter, interspersed with my responses to him, which are marked off by these marks: [].

From: Nicolas Sanchez [mailto:nsanchez@holycross.edu]
Sent: Sunday, October 31, 2010 3:35 PM
To: Walter Block
Subject: RE: Book plus interview

Hi, Walter, I am surprised that you do not find the book sufficiently pro-market, or even sufficiently close to your ideology. So, let me try to determine better where we disagree, going point by point:

1. We are against involvement in wars, making clear that governments are prone to get us into wars. The only war defended is the Second World War because there is no doubt that in that war we were attacked;

[[This is not strictly true. On p. 124 you defend the North side of the War of 1861-1865, characterizing it as a “Civil War.” But, a true civil war occurs when both sides of the altercation each want to rule the entire entity of which both, together, comprise. For example, the Spanish Civil War of 1936 was a true civil war, in that the Communists and the Fascists each wanted to rule over the entire country, Spain. In the War of Northern Aggression of 1861 (or the War to Prevent Southern Secession) only the North wanted control over the entire U.S. The South merely wanted to secede, something they had every right to do under the Constitution. Nor was this conflagration over slavery; this curious and horrible institution was in effect on both sides of the Mason Dixon line. Lincoln himself bruited it about that the war was to keep the union together; he aimed to do so with or without slavery.⁴⁶ I also favor the seceding side in another war of secession, the one sometimes called the Revolutionary War of the 18th century, the colonies versus Great Britain.

[[We also disagree about the so called World War II. As far as I am concerned, this was merely a continuation of the so-called World War I. In that event, the Allies and the Axis Powers were evenly matched. They were killing thousands of soldiers on each side over a scant few inches of territory in the trenches, from 1914-1917. Then the big bully boy U.S. government gratuitously entered the battle in 1917, tossing its weight on the British side, mainly because U.S. imperialists held more UK than German bonds.⁴⁷ In the aftermath of this battle, the Treaty of Versailles placed sole blame on the Germans, and sought to punish this nation in a draconian manner (Carr, 1947; Cowling, 1975; Keynes, 1920). Cutting out the historical details, his lead to the German hyperinflation of 1923 (Evans, 2003), and, inevitably, to the rise of Hitler. Yes, the Japanese attacked us in Pearl Harbor, but this was because Roosevelt, who ran on a peace platform in 1940, goaded them into that action.⁴⁸

[[I also strenuously object to your characterization of present U.S. expenditures on the military as “defense.” On your page 123 you repeat this mischaracterization

⁴⁶ For support of this claim, see Adams, 2000; DiLorenzo, 2002A, 2002B, Engerman, 1997; Gordon, 1998; Hummel, 1996; Rosenberg, 1972; Stromberg, 1979; Thornton and Ekelund, 2004, Woods, 2010.

⁴⁷ For readings on World War I revisionism, see: Barnes, 1929; 1972; Denson, 1997; Doenecke, 1979; Ferguson, 2000; Lee, 1963; Lutz, 1928; Martin, 1977; Polnar and Woods, 2008; Powell, 2005; Radosh and Rothbard, 1972; Raico, 1998; Rothbard, 1989; Taylor, 1972

⁴⁸ For a bibliography on World War II revisionism, see: Barnes, 1966A, 1966B, 1972; Beard, 1946, 1948; Bernstein, 1968; Charmley, 1996; Davis, 1975; Denson, 1997; Doenecke, 1982, 1983, 1986; Grattan, 1939; Griswold, 1938; Klein, 1969; Lewis, 1972; Liggio Martin, 1976; Martin, 1963, 1977; Mills, 1976; Newman, 1993; Polnar and Woods, 2008; Raico, 1998; Rogerson, 1938; Robertson, 1971; Rothbard, 1972; Schroeder, 1958; Snell, 1962; Suvorov, 1990; Taylor, 1996 [1965]; Tolly, 2002; Utley, 1985.

on numerous occasions. On your page 125 you do distinguish between “defense” and “offense,” but do not carry through consistently on this distinction.

2. We are very critical of the current tax system, making it clear that people waste resources as they try to comply with very complex tax laws. We come out in favor of a combination of the fair tax and the flat tax. I thought you would find that acceptable.

[[As a libertarian anarchist, or anarcho capitalist, I do not find *any* taxes “fair.” I regard them all as theft. Not as akin to theft; but, rather, as outright and explicit theft. They are compulsory payments, so there is no other way to characterize them.

[[Schumpeter (1942, 198) states: “The theory which construes taxes on the analogy of club dues or of the purchase of the services of, say, a doctor only proves how far removed this part of the social science is from scientific habits of mind.”⁴⁹

[[You state (p. 153): “... taxes are necessary and proper for life in an organized society.” I am shocked, really shocked, that you would think that I “would find that acceptable.” If you had cited and then tried to refute the anarcho-capitalist view of this matter, that would be one thing. Then, at least, you would do us the honor of trying to refute our position. But to totally ignore it, and then think this would be “acceptable” to an advocate of this position, is hard to understand. You mention (p. 153) “the creation and maintenance of public roads and highways” as a justification of taxes. Evidently, you are unfamiliar with my most recent book (Block, 2009) available here for free: http://mises.org/books/roads_web.pdf. In this publication I make the point that the government, the institution to which you want to assign this task, regularly murders some 40,000 on an annual basis on its statist roads. How could I *possibly* agree with you on this matter? You (p. 153) bewail the government’s “inefficient collection mechanism.” In contrast, I applaud this. Given that something is evil, I would vastly prefer that it be done *inefficiently*.

[[I am not at all supportive of your call for a flat tax. Suppose I were offered a choice between a flat tax of 90%, or a highly graduated one of this sort: earnings of less than \$9,999 per year, 1% income tax; \$10,000-\$99,999 income, 2% tax; \$100,000-\$1 million, 3% tax; more than \$1 million, 4% tax. I would certainly prefer the latter to the former, even though it is a progressive tax. I would still prefer this even if we significantly increased the progressivity to, for example, earnings of less than \$9,999 per year, 1% income tax; \$10,000-\$99,999 income, 4% tax; \$100,000- \$1 million, 8% tax; more than \$1 million, 16% tax.

3. We come out strongly against labor unions in Detroit and also in the educational sector

[[Yes, this cannot be denied. You do indeed pummel unions, some of them, but on very narrow grounds: they have insisted upon gigantic wage increases, and thus

⁴⁹ For a fuller defense of the anarchist libertarian position, see Anderson and Hill, 1979; Benson, 1989, 1990; Block, 2007, 2010, forthcoming; DiLorenzo, 2010; Hasnas, 1995; Higgs, 2009; Hoppe, 2008; King, 2010; Kinsella, 2009; Long, 2004; Molyneux, undated; Murphy, 2005; Rothbard, 1973, 1998; Stringham, 2007; Tannehill, 1984; Tinsley, 1998-1999.

endangered their industries. But your indictment of unionism is a very limited one; you do not demonstrate that these boosts in wages are *unwarranted*. You do not attack them philosophically, as the illicit economic tape worms that they *necessarily* are. You do not criticize them *all* as per se illicit, criminal organizations.⁵⁰ You do not at all call for criminal sanctions against them, as would a libertarian.

[[I am of course very sympathetic with the title of your chapter that deals with this matter: “American Unions: Robin Hoods or White-Collar Criminals?” I was looking, in vain, for the latter conclusion. On pp. 94-95 you come close to the libertarian position, but it eludes you. You state: “... we must reduce, restrict, or eliminate the coercive powers of collective bargaining. There are a number of ways to do produce such an outcome, including the limitation of union size, impositions of restrictions on collective bargaining, or, most radically, the prohibition of unions altogether.” But the key to illicit union power is that their threat is not limited to mass walkouts. Restricting their “ability to participate in the political process (p. 95), imposing right to work laws (p. 96) as you urge, are simply incompatible with libertarian law.

4. We come out strongly against government intervention in the financial sector (which led to a housing catastrophe) and also against intervention in the insurance markets (which led to the bad outcomes during Katrina);

[[I regard your chapter 7 on housing as among your best. You get things half right. You make a good case against Fannie, Freddie, HUD, NINJA loans, CRA, etc.⁵¹ But, you entirely miss the other half, the Austrian part of the story, which is based on artificially low rates of interest, leading to overinvestment in long term capital and consumer goods, such as, preeminently, housing.⁵²

⁵⁰ The text somewhat overstates the matter. It is logically possible for unions to be legitimate under libertarian law, if they strictly limited their repertoire to mass walkouts. For an explication of this, see Baird, 1990, 2000; Block, 1984, 1991, 1996A, 1996B, 2010; Evans and Block, 2002; Heldman, 1977; Heldman, Bennett and Johnson, 1981; Hutt, 1973, 1989; Petro, 1957; Reynolds, 1984, 1987, 2009; Schmidt, 1973; Shea, 2010; Rothbard, 1993

⁵¹ You were preceded on this exact point by Liebowitz, 2008A, 2008B, 2008C, Liebowitz and Day, 1998, who you do not cite.

⁵² For readings on the Austrian Business Cycle Theory (ABCT), see Garrison, 2001; Hayek, 1931; Mises, 1912, 1949; Rothbard, 1975, 1993. For Austrian predictions of this crisis see: Blumen, 2005; DeCoster, tba; Economics of contempt, 2008; Englund, 2004; Mayer, 2003; Murphy, 2007, 2008; Paul, 2002; Schiff, Undated A, Undated B, Undated C, Undated D, 2006, 2007; Shostak, 2003, 2005; Thornton, 2004, 2009, Undated. Stated Paul, “The special privileges granted to Fannie and Freddie have distorted the housing market by allowing them to attract capital they could not attract under pure market conditions. As a result, capital is diverted from its most productive use into housing. This reduces the efficacy of the entire market and thus reduces the standard of living of all Americans. Despite the long-term damage to the economy inflicted by the government's interference in the housing market, the government's policy of diverting capital to other uses creates a short-term boom in housing. Like all artificially created bubbles, the boom in housing prices cannot last forever. When housing prices fall, homeowners will experience difficulty as their equity is wiped out. Furthermore, the holders of the mortgage debt will also have a loss. These losses will be greater than they would

[[In the view of the ferocious battle that Austrians have been having with Krugman regarding ABCT (Murphy, 2008A, 2008B, 2008C, 2008D, 2009A, 2009B, 2009C, 2009D, 2010A, 2010B), I find rather unsettling your positive reliance (p. 118) on Krugman (2008).

5. We are against government regulation of the nuclear power industry;

[[I cannot find anywhere in your book where you explicitly oppose government regulation of the nuclear power industry. However, we are in full agreement with regard to your support for this source of energy.

6. We make it clear that decreases in taxes without similar decreases in government expenditures will not work because of Ricardian equivalence;

[[Yes, yes, government deficits create problems (Buchanan and Wagner, 1977). But, consider the following two scenarios. A: Taxes, 90% of the GDP; expenditure, 90% of the GDP; no deficit. B: Taxes, 5% of the GDP, expenditures, 6% of the GDP, deficit, 1% of the GDP. Would you join me in preferring the latter? Not on the basis of what you say immediately above.

7. Throughout the book we emphasize that unless markets are allowed to have competitive prices, the markets will not work efficiently;

[[This, to be sure, cannot be denied. However, we have markedly different views as to what constitutes a “competitive price.” In your perspective, as a neoclassical economist, this depends, intimately, on the number of competitors in an industry. If there is only one, you would characterize this as a “monopoly.” In my estimation, in contrast, as an Austrian economist,⁵³ the number of firms in an industry, the concentration ratio, the Herfindahl Index, are entirely irrelevant. As I see matters, the definition of an “industry” is totally arbitrary. Instead, the *sole* issue is, does the government prevent entry? If so, there is monopoly, no matter how many companies there are⁵⁴; if not, there are single sellers, but no untoward monopoly.⁵⁵

[[In very sharp contrast indeed, you state (p. 191): “...(this) ... does not mean

have otherwise been had government policy not actively encouraged overinvestment in housing.” (I thank the following people for helping me put together this list: Robert P. Murphy, Madhusudan Raj, Koen Swinkels, Washington Sanchez, John Robinson). Here are Austrian responses to critics of ABCT: Anderson, 2009A, 2009B, Barnett and Block 2005, 2006A, 2006B, 2008; Block, 2001; Block and Barnett, 2007; Cochran, Call, and Glahe, 1999; Cochran and Call, 1998; Cochran and Glahe, 1994; Cochran, 1998, 2001A, 2001B, 2001C 2003, 2009; Gunning, 1985; Murphy, 2008A, 2008B, 2008C, 2009A, 2009B, 2009C; Raj, 2008; Ritenour, 2000; Salerno, 1989, 1996, 1999, 2000; Sechrest, 1998; Woods, 2009A, 2009B

⁵³ For a bibliography of the Austrian analysis of competition and monopoly, and thus anti trust, see: Anderson, et. al., 2001; Armentano, 1999; Block, 1977, 1994; Block and Barnett, 2009; Boudreaux and DiLorenzo, 1992; Costea, 2003; DiLorenzo, 1997; DiLorenzo and High, 1988; High, 1984-1985; McChesney, 1991; Rothbard, 2004; Shugart, 1987; Smith, 1983; Tucker, 1998A, 1998B

⁵⁴ There are numerous taxi cab firms in New York City.

⁵⁵ IBM and Alcoa were for a time single sellers, but not monopolists.

that government regulations are out of place within a market economy; in fact, government regulations can improve resource efficiency. This can be done, for example, when monopolies are either regulated or banned, when collusion among firms is prohibited... Regrettably, competitive markets are never perfect because they normally require a large number of firms to participate in these markets.”⁵⁶ This is about as far apart from the Austrian theory of monopoly as it is possible to be. The Praxeological school entirely rejects this distinction between perfect and imperfect competition.

8. We support solutions to environmental problems based on the introduction of private property rights;

[[I find myself greatly out of sympathy for this chapter 9 of yours, dealing with these issues. I reject the notion of “negative externalities.” Rather, with Rothbard (1982), I see the issue in terms of the government allowing, supporting, subsidizing, the trespass of smoke and dust particles onto other people’s property. This is a *government* failure, not a market failure.⁵⁷

[[I also vociferously reject your reliance on, of all people, Coase, as support for your supposedly private property rights oriented analysis of environmental issues. As far as I am concerned, this economist is worse than the Communists on the issue of private property. At least the latter had a theory on this issue: property belongs, properly, to the proletariat. Coase, in contrast, has a vacuum instead of a theory of property rights. In his view, property properly belongs to whomever its ownership will most enhance GDP. I regard this as an abnegation of private property rights, since every time relative prices change, so will ownership.⁵⁸ For Coase, rightful ownership is a meaningless term.

[[I have a real disagreement with you over your use of the term “rent seeking” (p. 142). Why use so innocuous a phrase as “rent,” to indicate what is essentially

⁵⁶ In this passage (p. 191) you also call for government regulation “...when firms are forced to absorb the externalities that they impose on others (e.g., pollution)...” This, too, is *greatly* at variance from libertarian analysis. Here, it is the *government* that is responsible for the problem, by first seizing control of law, and then *promoting* pollution. For a refutation of this view of yours, see Rothbard, 1982, which in my view is the best thing ever written on the so called external diseconomy of pollution.

⁵⁷ There is no such thing in my view. Rothbard’s (1997, 178) *reductio absurdum* of public goods is as follows: “A and B often benefit, it is held, if they can force C into doing something. . . . [A]ny argument proclaiming the right and goodness of, say, three neighbors, who yearn to form a string quartet, forcing a fourth neighbor at bayonet point to learn and play the viola, is hardly deserving of sober comment.”

For more on this see Barnett and Block, 2007, 2009; Block, 1983, 2000, 2003; Bibliography, undated; Cowen, 1988; De Jasay, 1989; Holcombe, 1997; Hoppe, 1989; Hummel, 1990; Osterfeld, 1989; Pasour, 1981; Rothbard, 1985, 1997; Schmidtz, 1991; Sechrest, 2003, 2004A, 2004B, 2007.

⁵⁸ Here are some Austro libertarian criticisms of the infamous Coase theorem: Block (1977, 1995, 1996, 2000, 2003, 2006, 2010, forthcoming, unpublished A, unpublished B), Block, Barnett and Callahan (2005), Barnett and Block (2007, 2009), Cordato (1989, 1992a, 1992b, 1997, 1998, 2000), Hoppe (2004), Krause (1999), Krecke (1996), Lewin (1982), North (1990, 1992, 2002), Rothbard (1982), Stringham and White (2004) and Terrell (1999)

theft? (Block, 2000). Nor can I see my way clear to support your call (p. 140) for “individual fishing quotas (ITQs).” I am opposed, bitterly so, to “market-based” (pp. 140, 141) schemes such as ITQs, tradable emissions rights (TERs)⁵⁹ and Friedmanite school vouchers.⁶⁰ What is so wrong with full private property rights, as in the ocean, rivers, lakes, stream and seas?⁶¹ After all, we do not have “individual housing quotas,” nor “individual automobile quotas,” nor yet “individual shoe quotas.” Why, then, should we be content with “individual fishing quotas?” And, why should only “... a *majority* of the federal government’s land holdings ... be privatized” (emphasis added, p. 143)? Why not return *all* of it to the private sector, where it belongs? (Minor error in this chapter; it is the Kuznets curve, not Kuznet, on p. 148).

9. Finally, on a more positive note, the whole book emphasizes that technical change, savings and well functioning markets are the keys to economic growth. We openly reject Keynesian economics.

[[You do indeed say (p. 192) “...that the authors of this work view Keynesian economics as a burden to understanding...” However, I also see the following: “Keynes also came up with the brilliant concept of a marginal propensity to consume ... (p. 186); “If one were to know the marginal propensity to consume plus the behavior of firms and governments, then total output in the economy can be not only predicted but also manipulated (p. 187); “... it would take extraordinary circumstances (e.g., wars, crash in asset values) for consumers to alter their predicted behavior. Therefore, the economy is driven by investment and government expenditures” (p. 188). None of this has anything to do with what I regard as the correct analysis of these issues, namely, ABCT. And, as far as I can see matters, Friedman is a, get ready for this, I hope you are sitting down, a Keynesian.

[[You also write: “There were several main challenges to the early Keynesian approach. In the 1950s, Milton Friedman...” (p. 188). But, I see Friedman as a Keynesian. Skousen (2001) states: “This slide from Keynesian theory to particular policies was well illustrated in his seventh edition (1967), when Samuelson cited a statement by Milton Friedman, ‘We are all Keynesians now.’ However, at the end of chapter 11, Samuelson (7: 210) then referenced the full quotation from a 1966 interview of Friedman in *Time* magazine: “As best I can recall it, the context was: “In one sense, we are all Keynesians now; in another nobody is any longer a Keynesian.” Friedman (1968, p. 15) would later put it this way: ‘We all use the Keynesian language and apparatus, none of us any longer accepts the initial Keynesian conclusions.’”⁶²

[[But, surely, the “language and apparatus” are more important, far more important, in determining the categorization of an economist’s views, than are any

⁵⁹ McGee and Block, 1994.

⁶⁰ Rockwell, 1998, 2000, 2002; Rome and Block. 2006; Rothbard, 1971, 1994. 1995; Salisbury, 2003; Vance, 1996; Yates, 2002a, 2002b; Young and Block. 1999.

⁶¹ Block, 1992; Motichek, Block and Johnson, 2008; Whitehead, and Block. 2002; Whitehead, Gould and Block. 2004.

⁶² Also see on this: Block, 1999, fn. 16, Garrison, 2010; Gillis, 2003; Samuelson, 1967, 210; 1970, 193.

particular conclusions. The way I see matters, the Keynesians tend more toward fiscal policy, and the Friedmanians toward monetary policy, but, both sets of dismal scientists adhere to the hydraulic theory, according to which aggregate demand and aggregate supply determine economic patterns. Only the Austrians differ on this matter.

[[In contrast, I see you as a Friedmanite Keynesian. You state (p. 195): "... the government must create sufficient amounts of money to maintain wage and price stability; the experience of the Great Depression, when the government decreased the money supply significantly ... cannot be repeated. Nominal wage decreases of significant amounts are not in anyone's interest." If this is not Friedman speaking, channeled by Ben Bernanke, I don't know what it is. This is certainly incompatible with the Austrian analysis (Rothbard, 1975) of the events of the 1930s.

Walter, all of these points, I would think, are similar to those you would support--am I wrong on this? I will grant you that you have been critical of Coase's theorem, but it is used to point out that resources should go to those who are willing to pay the most for them, not whether Coase was right or wrong in his analysis.

[[I don't at all buy into the Coasean notion that "resources should go to those who are willing to pay the most for them." Rather, they should stay with their *rightful owners* (a concept very alien to Coase, and, now, unhappily, it would appear, to you too). Of course, if I own an item, and I want to sell it, and you are willing to pay the most for it, then, of course, with my permission, it should go to you. However, if you and I are having a dispute over the ownership of a picture of you and your family, or your family heirlooms, then, even if I am willing to pay more for these things than you, it should certainly not go to me. Rather, the judge should give them to you. The Coasean judge, and, now, you, unfortunately, as a supporter of this truly evil man, would award your property to me, just because I am "willing to pay the most for them." This is entirely unjust, another word simply not in the Coasean lexicon. Nick, I simply cannot believe you have fallen this horrendous doctrine. But, your book indicates that you have, as do your follow up comments, above.

I have no clue where you get the impression that I have ever supported Friedman's ideas! With regard to public goods, I am currently writing a second book on this topic, and I argue that the existence of public goods can be used to support a much more conservative agenda than people realize. My personal feelings on public goods is that the subject has been hijacked to support a liberal agenda--but I will grant you that this discussion is missing from the current book. Hence my theoretical chapter does include public goods to make the point that my arguments (which are quite conservative, as expressed in points 1 through 9 above) are fully within the tradition of standard economics. I fully understand your frustration that we do not make much out of the Austrian viewpoint--EXCEPT that we do make a lot out of information problems in the economy, and that perspective is tied to the work of Hayek.

[[You are an avid supporter of Friedman's analysis of the Great Depression. Decrease in the money supply (actually, stock), indeed. We differ widely on public

goods. You accept this notion, I reject it. Yes, your views are “conservative,” and “fully within the tradition of standard economics.” That is the precise objection I have to them. I am a libertarian, not a conservative; I am an Austrian economist, and thus reject “standard economics.” You certainly do discuss information, but not at all from a Hayekian perspective.

So, just for my personal knowledge, please explain to me how we differ on points 1 through 9 above, because I am really baffled. I do understand your objection to the issue of public goods and to not mentioning the Austrian tradition (even though it is embedded all over the place, and in particular chapter 2 which addresses crucial information problems).

[[Austrian economics is *not* embedded throughout your book. It is totally absent.

But please feel free to be critical of the book. I hope you would mention, however, the points of agreement. We have been friends because I value highly your honesty and insights. At this point, I find it hard to understand why you would be so critical, but there is always room for learning. You do remain my friend no matter what. Best, Nick

[[I hope and trust our friendship will survive this highly critical review. Based on the six years we spent together at Holy Cross (1991-1997), I am sure it will.

[[Nick had also, previously, sent me this letter, which I also now repeat:

From: Nicolas Sanchez [mailto:NSANCHEZ@holycross.edu]

Sent: Monday, September 27, 2010 12:31 PM

To: Walter Block

Subject: Book plus interview

Dear Walter, I sent you a copy of my book last week=

I wanted to bring to your attention my most recent interview in the press, see below, which I think captures the whole idea of the book. It can be found at: **<http://www.wbjournal.com/news47411.html>**

You have been a great friend. Thanks for everything. Nick

[[Here is Nick Sanchez's interview:

If you're at all in doubt of economic policies coming from Washington, D.C., then you'll likely be a fan of Nicolás Sánchez, a professor of economics at the College of Holy Cross in Worcester, who recently published a book entitled, “Destined for Failure: American Prosperity in the Age of Bailouts.” His co-authors on the book, which is available on Amazon.com, were two Holy Cross seniors: Christopher Kopp of Hamburg, N.Y., and Francis Sanzari of West Hartford, Conn. Here, Sánchez discusses why Keynesian economics should be dropped by policymakers in favor of what's known as growth-theory economics.

>> One of the things you point out in the book is the problem with China's currency being so under-valued. What's the solution to that problem? Is it tariffs?

It's not necessarily a tariff, but it has to be made absolutely clear to the Chinese that this behavior is not going to be accepted. What I am talking about is saying to China that if they subsidize their production we will impose taxes on their imports. I want to make it very clear that I am very much in favor of competitive markets. But what the Chinese have been doing is not competition because they have been manipulating the foreign exchange rate.

[[I am horrified, simply horrified, that you come out in favor of protectionism and tariffs. The Smoot – Hawley tariff of the 1930s threw our economy into a tailspin; we certainly do not need anything of the sort nowadays. Here, I fully agree with Milton Friedman: we should unilaterally declare full free trade with all nations, and stop these quasi, semi, demi, market-based (sneer) “free trade” agreements with other nations, such as NAFTA. If China wants to send us her goods and bargain basement prices, why should we object? In any case, the U.S. with Bernanke's QE1 and QE2 is doing exactly the same thing: lowering the value of the already very battered dollar.

>> What do you think of Bernanke's comments about the economy and the measures the Federal Reserve has taken?

Everything Bernanke has been saying has been tied up to Keynesian economics. Bernanke's solution to our economic problems is to make sure our interest rates are extremely low. But that creates disequilibrium. You may say, Well, the business community likes low interest rates, and I will say, Yes because they are thinking of themselves as individuals. They are not thinking of themselves as a community. The Wall Street Journal reported that very low interest rates have allowed companies that would otherwise have gone under because they are not competitive to remain in the market. Interest rates are too low, which allows certain companies that would have gone under to survive.

[[Very good. I fully agree. I would only add that we should all support Ron Paul's (2010) effort to “End the Fed.” But, I go further than that. I would really like to see criminal charges brought against Benny the Paper Hanger.

>> Aren't current policies about protecting jobs? And without them, wouldn't there have been very severe pain for America, at least in the short-term?

Our American economy doesn't work because firms survive. Our American economy works because there are new companies that come in, with technological advancements and then the technological advancements create the new jobs. We're running the economy based upon politics, but we're not running the economy based

upon how the economy actually works.

[[I of course favor new technology. However, this is not the essence of (limited) U.S. economic success. Rather, it is due to the vestiges of private property rights and free enterprise we still enjoy. This underlies our limited technological progress.

...

>> If you had two minutes with the president, what would you say?

I would say fire all the advisors who did not see what was coming. And the reason for that is because their models are based upon Keynesian models.

[[I would urge him to resign. Or, to immerse himself in Austro libertarian literature. Better yet, to appoint Ron Paul as his Vice President (at least as of 2012), and, right now, do *everything* that Congressman Paul suggested.

...

[[And now, for my response to Nick's letters to me:

Dear Nick:

Ok, I will write the book review. But, it won't be pretty. I'll certainly cover the points you mention in my review.

Best regards,
Walter

[[Ok, ok, this is now me writing, once again; please pay attention, won't you. I hope and trust, gentle reader, that you are still following what I am saying. If not, please start again at the top. I apologize for the unorthodoxy of this review, but complicated circumstances make for a complicated book review. As you can, I have now finished the book review I started, and then interrupted with this correspondence between me and the author. Only, now, instead of confining my remarks to a review of his book, I have also taken into account his letters to me, and the interview he did about his book.

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