ROMANIAN ECONOMIC AND BUSINESS REVIEW

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ONLINE PROMOTION OF TOURISM IN PRAGUE

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Abstract

Prague, the golden city of Europe, is one of the most sought European destinations for tourism, due to its tourist, cultural and political sights.

Another reason why Prague is an extremely visited city is because it has a lot of lodging units that cover a large array of geographical positions as well as a classification according to price categories.

An important tool in attracting customers is online promotion. This happens with the help of city presentation websites, of public interest landmarks, of hotels and hostels etc.

Keywords: tourism, Internet, website, Prague

JEL Classification: L 83, L86.

1. Introduction

Since the fall of the Iron Curtain, Prague has become one of the most popular tourist destinations in Europe and in the entire world.

Prague occupies the sixth position in the top of the most visited European cities, after London, Paris, Rome, Madrid and Berlin.

Although in the last year the Czech capital is a little too crowded with tourists, it nevertheless remains one of the great European tourist cities comparable with the great metropolises of Germany, France or Italy which have a similar price level.

Tourists are attracted by the millions by the golden reputation of the city of Prague, but also by that of other mediaeval resorts form the country.

Although the Czech Republic used to be a communist country, it remains the richest country in Eastern Europe, after Slovenia, which makes Prague resemble a metropolis of the states of Western Europe. In fact Prague has a gross domestic product per capita with twenty five greater than the average of the European Union and almost double in comparison with the rest of the regions of the Czech Republic.

Although after the Velvet Revolution of November 1989 Prague was insufficiently prepared for the fantastic flow of tourists, nowadays the situation has

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changed dramatically, the city being endowed with an appreciable tourism infrastructure – suitable for a cosmopolitan and prosperous city.

The city may be visited any season, as in Prague there really is no low season when fewer tourists come. Although Prague is probably the most cosmopolitan city of Central Europe, transportation to the Czech capital is relatively difficult, as neither the airport nor the station are equipped with tourism offices, since at the moment Prague is not so well connected to the European transport network, unlike Vienna or Budapest, for example.

As in every tourist city, Prague has its mediaeval tourist sights, without which it would not have the same image and draw the same interest in us and the tourists, such as the Old City and the Old City Square, the Astronomical Clock, Charles Bridge, Prague's New City, the Prague Castle and Saint Vit's Cathedral, Lennon Wall, the National Museum, the Old Jewish Quarter, the Metronome, the Zizkov Television Tower, the Olsany Jewish cemetery and Franz Kafka's tomb.

The historical and tourist air notwithstanding, Prague represents one of the most important European cultural centers as well.

Prague is the host of numerous cultural events and it is the home of a few institutions from the Czech culture – the National Theatre, the State Opera, the National Library, the National Museum – and the headquarters of the Czech Philharmonic Orchestra.

In the city there are concert halls, music clubs, art galleries and hundreds of cinemas. Prague hosts a lot of film and music festivals and fashion presentations and it is the meeting place of many famous writers.

Among the celebrities that have their name tied to this city we may gladly enumerate Mozart, Albert Einstein, Franz Kafka, Jan Hus – renowned people that have put their imprint on both the history of the Czech city and humankind.

Still in relation to the educational-cultural aspect, we must mention the fact that the city is the headquarters of a number of important universities that are famous across the borders of the Czech Republic: Charles University, the Academy of Fine Arts (1800), the Academy of Arts, Architecture and Design (1885), the Academy of Performing Arts (1945), the University of Economics, the Czech Technical University (1707).

Prague represents the venue of international conferences, such as: the NATO Summit of 2002, the World Bank Summit in 2000, the General Assembly of the International Astronomical Union in 2006, the International Olympic Committee Session in 2004.

2. Theoretical Bases

The tourist is the person that travels outside the border of the residential space for a period shorter than a year, whose motivation is other than the exercise of a remunerated activity in the visited place.

Domestic tourism is monitored with the help of the following indicators: the number of tourists that have arrived in the city, the number of tourist days to offer, the number of tourist days to capitalize upon, the average number of tourists, the amount of the revenue, the average daily revenue per tourist, the number of people lodged and the overnights, the vacation average length, the occupancy rate, the average rate per room and per client.

Tourist turnover is measured in physical units represented by the number of tourists that can be registered as arrivals in lodging units.

The number of tourist days is an indicator and it results as a product of the number of tourists and the length of the tourism activity expressed in days. The period taken into consideration is a year maximum.

The average number of tourists expresses the average tourist turnover over a given period of time.

This is calculated as the average number of daily arrivals through a ratio of the total number of tourist days to the number of days considered. This indicator offers the possibility to estimate the frequency of the tourist turnover in certain periods of time or in a tourist season.

The number of overnights is registered in lodging units and represents the number of nights spent by the tourists that are accommodated. It can be no more than equal to the number of tourist-days, and it usually is smaller as not all tourists are accommodated in specialized units.

The vacation average length is calculated as a ratio between the total number of tourist-days and the total number of tourists. The vacation average length offers complete information on the impact of the tourism activity, generating economic effects that are directly proportional to its length. This indicator is influenced by a series of factors: the quality and type of the tourist offer, incentives, the tourist's income level, the distance where tourists come from.

The vacation average length increases as the traveling distance increases.

The occupancy rate indicates the number of sold rooms out of the available ones over a certain period of time. The rooms that are out of use are usually (but not always) included in the number of available rooms.

With hotels that assess management performance according to the occupancy rate, the inclusion of the rooms that are out of use represents an incentive for the management to repair these rooms as quickly as possible. The exclusion of these rooms would cause an increase in the occupancy rate on false premises, falsely taking into account the unsold rooms. The average rate is calculated as a ratio of room revenues to the number of rooms sold. The average client rate is calculated as a ratio of room revenues to the number of tourists.

Domestic tourism revenues include revenues from hotel benefits, from product sales and from other activities, facilitating the measurement of average revenues per tourist-day, per meals, per person and per room. Internal management indicators are mainly used to present the economic efficiency of the tourism activity over a period of time.

3. The Tourist Offer in Prague

3.1. The Tourist offer can be defined through: the natural and anthropic environment and potential, the equipment necessary for the production of tourism services, the source of material goods destined for tourism consumption, the workforce specialized in specific activities, the tourism infrastructure and the selling conditions, the totality of tourism elements that can motivate tourists to travel, and of the elements destined to capitalize on their demand, the ensemble of attractions that can determine the visitation of certain tourist areas, together with the organizational ability of the network to satisfy under certain terms the demand of the population.

The tourist offer consists in:

- elements of attractiveness existing at a given time only as potential – natural, socio-cultural, human and technological resources;
- functional elements consisting in equipment and services that make production possible and which valorize attractiveness.

Their absence leads to the existence of tourism potential without the possibility of valorizing it. The premise of the tourist offer consists in the tourism potential that can be considered a potential tourist offer.

The tourist offer can be classified, according to the dominating motivation of the consumer, in the following groups:

- the vacation tourist offer: family tourism, balneary, sports and recreational tourism
- the cultural tourist offer: educational tourism, technical and artistic initiation tourism
- the business tourist offer: congress tourism;
- the health tourist offer: treatment tourism.

Thus, Prague can be found in every branch of this tourist offers due to its general infrastructure and to the presence here of a lot of important institutions.

Prague holds the most successful recipe in comparison with all the East-European tourism capitals; the accommodation tourist offers at a medium European level attract large numbers of tourists determining them to spend huge sums of money annually, which helps the increase of Prague's GDP.

The amelioration of unemployment is linked with the financial recipe from tourism as well, the gross domestic product being double in comparison with that of the other regions in the country and greater than the average of the other EU states.

The plan of the city municipalities is very successful, drawing foreign investors to various industrial companies in the city. The attraction of Austrian investors in banking maintains Prague at a high level, as banks offer insurance that they can cope with the economic crisis until 2012, the year when the end of the economic crisis is predicted to occur.

The interesting fact is that the Austrian companies Raiffeisen and Erste are the only banks in Prague. For developed countries, where the income varies very little, the level of the elasticity coefficient is around +1, and here we make reference to the elasticity coefficient of the Czech Republic as well.

$$E_V = \frac{Dc}{c} \div \frac{Dv}{v}$$

c – represents the demand or the volume; v- income; Dc – demand variation; Dv – income variation

3.2. The Elasticity Coefficient in Prague

In order to find out the price elasticity coefficient for the Prague tourist offer, we will analyze the situation for 2010 of one of the famous hotels situated in the city centre, namely Savoy.

It is a hotel with thirty double rooms and a matrimonial suite. The 2010 offer for the double room is €285, and nevertheless the hotel does not lack demand, due to the tourist affluence, tourists considering that the price is in agreement with the services that the hotel offers.

$$E_p = \frac{Dc}{c} \div \frac{Dp}{p}$$

Ep – level of price elasticity; Dc – demand variation; Dp – price variation; p – prices

Thus, between August and October 2010, the demand at Savoy hotel was of three hundred reservations in total, for €285 each. The demand variation and the price variation are equal and they remain unchanged (source – Google, sitte wttc.trevell,Czech Prague).

$$E_p = \frac{1}{300} \div \frac{1}{285} = 1{,}05$$

Thus, the elasticity coefficient in Prague for the above-mentioned period of the year 2010 (August-October) is of + 1.05. In developed cities such as Prague the tourist flow is bigger than the dynamic of the Czech population.

3.3. The Density of the Tourist Population in Prague in 2010

The density of the Prague tourist flow is represented by the ratio between the number of tourists and the number of the city population.

$$D_t = \frac{\text{the number of arrivals in Prague in 2010}}{\text{resident population in Prague in 2010}} = \frac{5321981}{1901039} = 2.79\%\text{(tourist density in Prague)}$$

The average number of tourists in Prague in 2010:

$$N_t = \frac{\text{the number of tourists in Prague in 2010}}{\text{the number of days in the year 2010}} = \frac{5321981}{365} = 14581\ \mathit{tourists(source: wttc.Praha.org)}$$

Table 1: The evolution of the number of tourists from 2006 to 2010 in Prague

4011379	4510463	4780301	5071106	5321981
2006	2007	2008	2009	2010

source:www.praha.org

The tourism potential in Prague is given by the natural and anthropic elements, by the tourism workforce and by the general infrastructure. The tourism product in Prague represents a combination of services provided by certain tourism agencies to tourists who want to spend a pleasurable vacation in the Czech capital.

Behind all these there are the tour operators, the creators of tourist packages and the organizers of leisure experiences, which have the role of intermediaries between the providers and the consumers through the creation and distribution of tourist packages.

4. Tourist Reception Structures

In the Czech Republic, as in any country with tourist attractions, we encounter a diversity of spaces and accommodation units provided for tourists with the help of tour operators that distribute packages with tourist offers.

Therefore the types of reception structures that bear the function of tourist accommodations are classified as follows:

- one-star, two-star, three-star, four-star and five-star hotels, two-star, three-star, four-star and five-star suite hotels, two-star and three-star motels;
- two-star, three-star, four-star and five-star villas; one-star, two-star, and three-star chalets; one-star, two-star, three-star and four-star tourist pensions, one-star, two-star and three-star agritourism farms, one-star, two-star and three-star rented rooms and family lodgings
- one-star, two-star, three-star, four-star and five-star river and sea ships

Table 2: The lodging capacity according to types of tourist reception structures in Prague from 2006 to 2010

Types of tourist reception structures	2006	2007	2008	2009	2010
Total out of which	337	356	398	409	429
Hotels	240	250	279	284	300
Pensions	70	74	79	83	86
Camping	15	17	17	17	17
Suite chalets	12	15	15	15	15
Inns	-	-	-	-	1
Motels	1	-	4	7	8

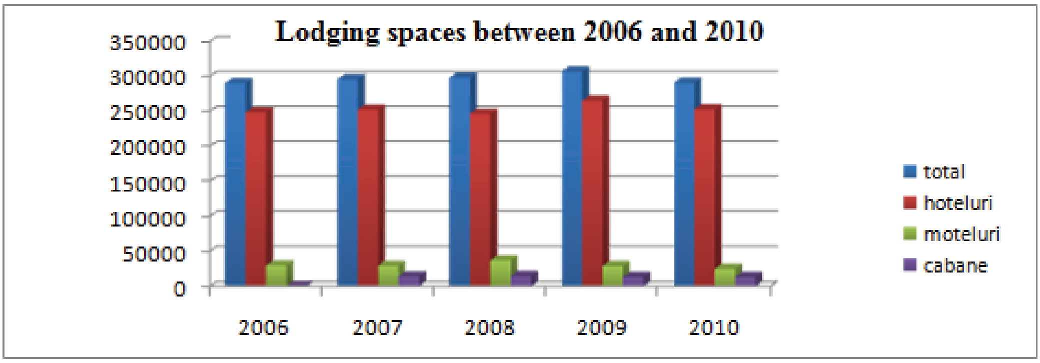
Source: site booking.co/Prague-Hotel

From the analysis of table 2 we may notice that the greatest lodging capacity can be found in hotels, representing over 70% of the lodging units in the city. As we may see in the table above the capacity of buildings and accommodation units has increased in the past five years, mostly due to the huge flow of tourists that visit Prague every year.

The basis of lodging units in Prague is given by hotels, the rest of the units – represented especially by motels and pensions – being addressed mainly by Czech tourists or even by those from Prague.

In chart one we have a representation of the lodging spaces that helps us understand the situation of the lodging structure better and to highlight tourist distribution in the accommodation units in the city.

Chart 1: The representation of the situation of lodging units between 2006 and 2010



Source: a chart based on the data from table 2

In this way it is clear that the tourist offer is influenced by the number of available rooms yearly for every lodging unit, by the number of days while the unit is open and by the number of calendar days.

What needs to be mentioned is that leap years have a great influence on establishing the tourist offer: the number of available places in the offer is then greater. Room rates are set by tourist economic agents, freely, based on demand and supply, in a competitive environment.

The accommodation array in Prague comprises a number of three hundred hotels, motels and tourist pensions, and it is important to know that the complexity and quality of the accommodation services contribute to the attraction of tourists and to the capitalization of the tourism potential.

To establish these services marketing surveys and economic analyses are used, along with expenditure level forecasts, with programmed profitability rates, with the level of rates in similar units in the area and abroad, with legal regulations etc.

In conclusion, the basic tourism services are represented by lodging, food, treatment and sports.

5. Research on the Online Promotion of Prague

The key elements that offer the efficiency of a website are: the website design, the content, the structure, the security and the architecture of the website.

A website is a collection of documents that have the role of informing and promoting a certain institution, region or person.

The city of Prague has at its disposal a lot of such websites whose purpose is the promotion of the image of the Czech people and of their culture all over the world. Thus, the website represents the most accessible means to promote tourism in the Czech capital.

The emergence of various websites on Prague lately has helped tourism worldwide to understand the real image of the city, to know the culture of Prague, to take note of the main attractions in the area, often stimulating one's desire to travel in this city in order to experience all these things – discovered on specialized websites – that aim at the promotion of the image of the city and of the Czech people.

Every website on Prague is complex, with a fairly well-structured content, which helps one realize as realistically as possible everything that Prague means.

The well-structured and concise information, the images of the city and of tourist sights, the important moments of the city history, the analyses on its general infrastructure help tourists know and understand better the cultural and tourism importance of this region.

Tour operators play an important part in the development of tourism in the city. They create travel tourist packages and leisure trips, functioning as intermediaries between providers and consumers, through the distribution of tourist packages to various agencies.

They also have an important role in online image promotion, through the presentation of various tourist offers to clients throughout the world, of tourist packages that contain a number of accommodation nights, of catering activities, of facilities, of organized trips, all at a medium price in order to attract as many tourists as possible.

Websites such as Wikkitravel or Bookingcz.com are only two examples of the most important ones whose aim is promotion via informative and ample presentations to tourists.

The importance of website promotion in the economic activity has translated in the great number of reservations in various tourist locations in the area, especially in hotels, which represent the most common type of accommodation, and in the tourist packages sold. The number of reservations increased a lot in 2010 and 2006, which were the most significant years as far as the number of visitors in Prague.

In this way Prague is visited by almost a million and a half foreign tourists annually, the authorities being very satisfied with the financial recipe promoted with the help of various websites.

Specialized websites have directly brought their contribution to economy, tourism developing alarmingly positively for the local authorities.

An important role is held by the website design and by the information on the history, the regional culture, the politics and the economy of the place, and the images attached to every category highlight even more a well-planned promotion whose objective is culture promotion and commercialization and the intensification of tourism activities.

The recent increase in the number of hotels, which have reached three hundred, is mostly due to these websites with information on Prague.

Tourists can get informed and view photographs with the hotel room and the facilities offered there that are included in the tourist packages.

One of the main elements or factors that can be found at the basis of the image promotion of Prague worldwide is the website.

The website offers a wide range of services to the client, who can access it whenever convenient to find out information that can be useful.

Therefore, a lot of information websites have been created about the Czech capital, precisely in order to promote the image of the city in the world, the aim being to attract clients and implicitly to develop domestic and international tourism.

The most efficient way to promote the image and the culture of a city or region is the creation of a website, for multimedia access. The role of the website is crucial in the attempt to promote a city culture and history.

The website needs to have primarily an efficient search engine that is well-known globally. Consequently, in the creation of the websites on Prague we have chosen "Google", and the motivations to support this choice have been multiple.

Nowadays Google holds the supremacy in the field of search engines, being the most popular among users worldwide.

Google is the greatest possible search engine and it is rated the fifth in the top of the most populated sites in the world.

Let us review a few of the data introduced in its official presentation: it has a support of over one hundred languages, approximately one billion pages, approximately eight billion indexed pages and around 89,9 million users monthly. Hence, we may understand better the role of a search engine in the promotion of a region and in accessing a website.

The creation of the Prague website needs to meet the following requirements: security, design, architecture, structure and content.

It is important that the image of the website be modern, so that the media should be attracted to its architecture.

The image of a website matters enormously in the relation with the media. It must contain ample and well-structured information so that the media should have access to all the details on regional culture, on the city history and on the economic activity in the area.

For each tourist presentation it is imperative to have a photograph of the tourist sight that is being introduced, in order to offer to those who access the website the possibility of an overview of the place to gain a general perspective on it.

The carefully selected information and the website address form lead to the attraction of a great number of tourists that contribute to the country GDP and to the unconditional development of tourism and of the economy in the area.

It is better to have an English translation of the website as this is the main international language, any other language raising the difficulty of understanding the content of the website.

Tour operators and tourism agencies play an important part as well, through the presentation and distribution of the tourist packages.

Therefore, a website must contain tourist package offers of different hotels or accommodation units in Prague, so that the tourist should be able to outline and make a choice regarding the destination.

At present, the Internet plays a very important role in the global economic business and websites are greatly valued by both economic agents and the media.

The role of the Prague website is that of attracting not only tourists in the area, but also other foreign investors, this being the basic policy of the local authorities. The advantage of the promotion website in comparison with the brochures from tourism agencies is that the former may be viewed by anyone in the world.

Conclusions

Prague is the capital of the Czech Republic and its main source of tourism. Due to its geographical position, Prague is a historical mediaeval city, a city of international congresses, full of culture that draws tourists in great numbers every year, all of whom want to visit the city of a hundred towers, the second Paris, or the Golden city.

The sights attract a lot of tourists here from all over the world, contributing to the gross domestic product of the Czech Republic, the average of the GDP in Prague being double in comparison with the rest of the regions in the country.

The city represents the main source of tourism in the country, and the revenues from tourists increase the level of tourism in the external balance of payments.

The charts representing the number of tourists arriving in the country in the past few years show a progressive development of tourism in Prague in the last period.

The promotion of the city image through tourism is accomplished with the help of the Internet and of the website that brings about a series of advantages.

Surely, Prague holds the financial recipe for success in the economic and tourism activity, its annual revenue being counted in millions of dollars, a remarkable fact if we think about the period of crisis that we are now going through.

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THE VIABLE ALTERNATIVE OFFERED BY TEHNOLOGICAL INNOVATIONS TO TOURISM INDUSTRY IN THE CONTEXT OF ECONOMIC RECESSION

Daniela Firoiu,
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Cristina Maniu*

Abstract

In the context of economic crisis the main players from the industry of tourism and hospitality have to make many changes and to generate, permanently, technological innovations in terms of products, processes, knowledge, in order to become competitive and to maintain the status of competitiveness on the tourism market. On the road to maintain and achieve performance, travel organizers have to approach a global mentality and take into account the competition existent on the international market. E-tourism or online tourism, is part of ecommerce, presuming the existence of tour operators, tourism agencies, operators in the hospitality industry and other entities in the field of virtual space tourism. Therefore, according to Buhalis e-tourism is the future of tourism industry and is appropriate as a basis for everything tourism will become in perspective, its components being redefined as: eAirlines, eHospitality, eTouroperators, eTravel agencies, eDestinations.

Keywords: recession, technological inonovations, etourism, competitiveness, ecommerce

JEL Classification: L 83

Introduction

In the context of financial crisis many companies closed units however profitable, focused on short term investments, shareholder value and wage austerity. The crisis raised the uncertainty in world economy and caused banks collapses, investors to cut down on their investments, job losses . The recession that started firstly in developed countries has affected the developing countries in critical levels as well. Despite of all the negative aspects, the economic crisis is seen by many as a catalyst for the development of new innovation paths . This study aims at researching the impact of tehnological innovations techniques on the tourism market and on the efficiency of the activity of travel operators, giving Romania as example, thus bringing a plus of knowledge in this field. The hypotheses of the research have been that internet technologies become constant parts of firms and shopping habits have been redefined. It has become essential for the companies to gain profit with lower fixed costs and investments by using internet technologie in the most efficient

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maner.The conclusions of the study are based both of specialised publications and on direct research and emphasize that Easy sharing of information started to change the forms of doing business radically and with exponentially growing internet technologies, the economy had to adapt to the new requirements of a virtual world.

Theoretical aspects regarding the influence of new technologies over the tourim market

In the context of economic crisis the main players from the industry of tourism and hospitality have to make many changes and to generate, permanently, technological innovations in terms of products, processes, knowledge, in order to become competitive and to maintain the status of competitiveness on the tourism market. On the road to maintain and achieve performance, travel organizers have to approach a global mentality and take into account the competition existent on the international market.

The constant of current tourism consists of the attribute of change: a permanent transformation of the field, combining new forms and methods of performance. At present, the development and distribution of touristic products, using the classic variant (which requires the tourist's presence at the key moment of their generation and purchase), tends to become a less common practice due to the multiple advantages generated by informational services suppliers.

Development processes within information technology, communications and Internet, in particular, have revolutionized the entire tourism industry, generating new business models, changing the production structure and the distribution channels specific for tourism, influencing especially the suppliers of tourism packages, the destinations and stakeholders..

The development of search engines, the capacity of data storage and the operating speed in informational networks have influenced the number of travelers around the world, who use the new technologies in order to plan and experience travels. Increasingly we speak of promoting touristic destinations by means of social networks (facebook, twitter), of the rapid access to on-line systems for booking touristic services (booking.com, hotels.com), of rapid check-in /check-out using the mobile phone connected to internet, as well as the multiple payment modalities (banking).

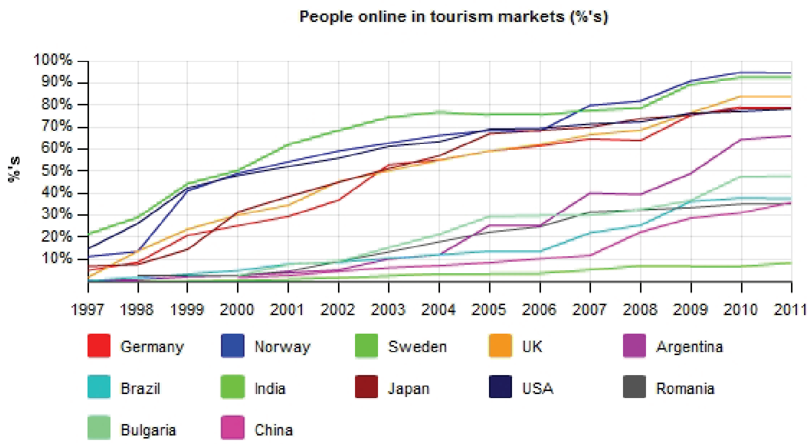
Online tourism market is booming as the internet spreads out and increasingly wealthy middle class from developing countries like China, India, Rusia and the ones from the former comunist block starts traveling more for pleasure . PhoCusWright estimates that in 2012, Europe will become the largest online travel sector, while Asia-Pacific will account for roughly 20% of the market worldwide (www.newmediatrendwatch.com)

According to the next grafich the developed countries like US, UK, Germany and Scandinavia have reached the tipping point, the remaining markets have significant growth potential, including Japan,China (Asia Pacific) Brazil,Argentina (Latin America).

One can notice that online penetration increase in more mature countries markets like Norway (94%), Sweeden(92%), UK (83%), Germany (79%), US (77%) and travel markets are going slows . Travel businesses are looking for new markets to expand and gain popularity in Asia-Pacific region and Latin America , India.

In these emerging markets, macro-economic gains, rose travel and increased adoption of technology will continue to supply significant growth in online reservations. India and China are forecast to dominate growth in online travel over the course of the next few years because of the growing number of middle class, rising adoption of credit and debit cards across the region, giving users easier means of securing travel products immediately over the web, although some countries still have widespread book online-pay offline policies in place;similar to the spurts in growth in the west in the early to mid-2000s, rapid expansion of web connectivity in the home and businesses - alongside prolific use of mobile web.

(PhoCusWright)



Source www.newmediatrendwatch.com, 2011.

The reconsideration of economic processes managed by information technology, noticed within the industry, gradually generates a new paradigm shift. This modifies the structure of the entire industry and develops a new range of opportunities and risks for the persons involved. The advanced use of information technology by consumers, on a large scale, creates the possibility for them to identify, personalize and purchase touristic products, but also supports the industry's globalization, ensuring efficient tools by means of which suppliers may develop, manage and share offers worldwide. This results in the generation of a major research field starting from this interface, namely e-tourism, which researchers are increasingly seeking to understand, communicate, develop and implement in present activity, attempting to foresee the future, both for the development of the industry and of the related technology.

According to Buhalis (2003), information and communication technology holds an enviable record in the pioneering research of e-tourism, which as a complex area incorporates:

- strategic management and marketing;
- e-tourism and accessibility offered by Internet to consumers in what respects the distribution of touristic products to the organization's employees by means of intranet, as well as the use of extranet by suppliers and customers;
- Online design and the possibility to quantify the number of visitors who access the online site;
- Destination management systems;
- Social Media network;
- Booking touristic packages or travel tickets by mobile phone;
- Online marketing;
- Search engines optimization (SEO) and Payment-Per-Click campaigns (PPC);.
- Online distribution and multi-channel strategies;
- Customer relationship management;
- Online sing-up of the consumer;
- Affinity marketing, which aims to trace the loyalty of consumers and business partners and the best web design practices.

At the same time, it should be noted that e-tourism and the advantages generated both for economic agents and consumers, are numerous but also there have to be mentioned the risks associated to the new technologies that threaten consumers' safety and protection. In Romania the lack of a coherent legislative framework and the lack of online practice, many times, put in difficulty the consumer. Consumers have to act with caution when providing card details . The growing complexity of travel web sites in the past years it is a major reason why more travellers would use a travel agent if they could find one.Most of the times, consumers don't have specialty knowledge in the field and can not understand the terms used in the online presentations for touristic services' packages, this resulting in many inconveniences. Time-stressed consumers are other reason for the shift. From the same point of view we refer to the risks incurred by the providers of touristic services, risks generated by errors of the informational systems (e.g.: overbooking) or related to the impersonality of the relations between agent and tourist. Generally tourist agents are trained to ask questions and to help customers elucidate their travel wishes, to know well their preferences as opposed to the simple filling in of an online standard form.

E-tourism or *online tourism*, is part of ecommerce, presuming the existence of tour operators, tourism agencies, operators in the hospitality industry and other entities in the field of virtual space tourism. Therefore, according to Buhalis e-tourism is the future of tourism industry and is appropriate as a basis for everything tourism will become in perspective, its components being redefined as: *eAirlines, eHospitality, eTouroperators, eTravel agencies, eDestinations.* This approach emphasis the importance of information technology in the development of all tourism related activities, acquiring a strategic role for the performance of opportunities or any type of activities.

At airlines' level, eArlines emphasizes the importance of this sector belonging to tourism industry, the first which has created an open and competitive global market and which has liberalized distribution and distribution channels by creating GDSs: Amadeus, Sabre, Worlspan/Galileo (O'Connor, 2004; Sheldon, 2001). Internet had the most significant effect on the distribution channels in tourism, initially monopolized by large GDSs, generating the adjustment to the new market requests by means of the vertical and horizontal integration of the companies from the field and the implementation of internet applications that promote the B2C type of direct distribution and the improvement of customer relationship management. A good example is represented by Sabre, respectively Sabre Holdings, who in the past years has enhanced its portfolio by integrating brands that ensure its competitiveness on the touristic market: Travelocity- online tourism agency, Sabre Travel Network and Sabre Hospitality Solutions (www.sabre-holdings.com). By purchasing 40% of DCS's shares from Germany, Sabre Network Travel enters Romanian market by promoting a leisure GDS, MerlinX, which makes available for the tourism agents a booking system connected to the international tour operators.

At the level of hotel industry, eHospitality implies the use of information technology and the efficiency of hotel assets' management. Information technology experiences an increasingly larger use in hotel industry, by means of its integration in the management of operational departments (accommodation, food, entertainment), of functional departments (administrative, marketing, human resources), offering efficient tools at low costs for marketing research but also for increasing profitability through the direct distribution of rooms, using its own booking site and, last but not least, the optimization of the online check in/ check out system. Hotel revenue managers embrace online distribution and hotel internet marketing beyond transient room sales. Many hotel groups had built a complete strategy and plan to promote their hotel's website in search engines. In this way they increase the online reach of their brand and gain exposure to niche marketing segments. There are a lot of online travel agencies that target groups. The group segment is a growing part of the online travel ecommerce. Going onto the search engines and typing in keywords like 'group travel', 'group hotel rates', 'group hotel booking', 'group accommodation' we run into a great variety of websites that distribute rooms to groups, such as: www.hotelplanner.com,www.grouptravel.com,www.grouptraveldirectory.com,www.leisuregrouptravel.com.

Besides room only sales, there are also websites dedicated to distribution meeting space online. Some examples include: www.cvent.com, www.meetingsbooker.com. Surprisingly enough it seems the hostel world is doing a good job online. Searching online, hostel websites come up more often that online travel agencies and hotel websites. At the same time eHospitality implies hotel internet marketing experts like Xotels.com that help hotels by offering different services, such as: hotel website design, CRM System, SEO-Search engine optimization, social media marketing and mobile solutions. In our country, despite the fact that information technology experiences an increased penetration within the operational and functional departments of hotels, consumers still prefer to book rooms by phone to the detriment of online booking.

The network of local tourism businesses (hotels, attractions, transportation services, service providers such as guides and equipment rentals, restaurants, etc.) represents a significant part of a destination and destination management. At present *destinations* gain increasingly more ground by introducing touristic values in touristic circuits, this aspect being facilitated by VR technologies (for instance the European Union's Lifeplus program which digitalized the ruins of Pompei), as well as the promotion on facebook or twitter of holiday destinations, which became *eDestinations*.

„On the internet, tour operators may provide a detailed description of touristic products, using a large range of online tools: virtual tours, video and graphics displaying holiday destinations and their attractiveness, pictures with facilities offered by the accommodation units, means of transport. Flights, accommodation and *rent-a-car* represent standard services which may be assessed more easily, provided tangible parameters are set"(Kracht Y.,Wang YC.,2010).

„ *E-tourism"* offers more diversified services. Tourists not only can reserve online a touristic product, but also will receive all information by e-mail and pay online, using the credit card."(Mihalcescu C., Sion B., at all, 2009)."Internet represents a useful tool both for the providers of touristic products and the consumers of tourism related goods and services, by the dissemination of information, real time access and marketing, with minimal effort, of touristic service packages".(Buhalis D, Law R., 2008).

From the point of view of *distributors, eTouroperators and eTravel agencies* can be noticed how internet's popularity lead to online sales of touristic packages and the burst of virtual tour operators. „Therefore, in the scenery of tourism businesses, the majority of traditional agents and tour operators, especially the ones integrated in chains of operators, extended their segment of activity in the area represented by the organizers of „bricks&clicks" travels – operators involved in e-commerce" (Dodu P., 2008). Among the international leaders within the online travel market is included Travelocity which owns a series of well-known brands: lastminute.com, holidaysauto.com, Orbits.Internet enables direct suppliers to address potential customers by means of their own sites, this favoring them, in the sense that they have the possibility of applying various rate policies or loyalty programs, in this way determining a greater price transparency and an easier access for users.

Etouroperators and eTourism agents aim the direct sale of touristic services' packages through their own points of sale and especially through web pages, at the same time offering to consumers the possibility to access the dynamic packaging system. A major change is identified in the consumer behavior of travelers, who are interested in a customization of the touristic services' package but also a cost reduction. Customers have spent increasingly more time on price comparisons on different travel websites such as Kayak and Kelkoo searching for alternative products that can reduce the cost of their travels. Prior research shows that search costs decrease in electronic markets due to diminishing cost of data exchange. (Buhalis, Law 2008)

In our country we can notice an increased interest for upgrading online technology and for responding to the needs of experienced travelers. There is an increasingly larger percentage of tourists who opt for making their own travel arrangements, when they are interested of traveling within the European continent and for short distances, accessing sites such as: booking.com, hotels.com for booking hotel rooms and zboruri ieftine.ro, vola.ro for booking a plane ticket. At the same time they exhibit increased susceptibility when intending to make a long distance travel (American, Asian continent) where they don't benefit from touristic experience and are not sure about the safety of online booking and card payment.

Weber and Roehl (1999) found that people purchasing travel products online are more likely to have been online for 4 years or more and trust can be built between customers and online businesses through the positive experience of past transactions (*Bai, Hu, Elsworth, & Countryman, 2004*;). The Internet is already influencing the consumer behavior in developing countries, enabling consumers to have many more choices (Li & Buhalis, 2006).

Conclusions

Nowadays companies have to learn how to think one step before in order to prosper or at least in order to endure on the market. The new technology plays an important role within the tourism and travel industry generated a series of changes in the relationship producer-consumer, the clients having the possibility to get with minim costs big benefits by booking, searcing and comparing tourism data online. E-tourism segment is a relatively newly approached and implemented segment at the level of national tourism market, representing an interest point for all touristic services operators and suppliers. The development and distribution of tourism products, using the classic variant (which requires the tourist's presence at the key moment of their generation and purchase), tends to become a less common practice due to the multiple advantages generated by informational services suppliers.

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TOURISM – A PROMOTER OF HUMAN DEVELOPMENT

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Abstract
The concept of development has suffered major transformations in time, being not only a source of countless disputes among specialists, but also a representation of people's level of knowledge, witnessing the passage from the satisfaction of primary needs to a focus on the principles of sustainability. Tourism represents nowadays one of the most dynamic economic sectors, which, despite all the crises and the unfortunate events of the past, but also in spite of the realities of the global economy nowadays, has demonstrated a tendency towards stable development and superior potential as far as sustainable and human development on the economic, social and environmental planes. On the background of debates concerning economic growth and development, tourism manifests itself as a motivating mechanism for the two processes, but also as a determining one for these, through the multiplicity of the effects that it generates at the level of national economies and of societies.

Keywords: human development, economic growth, tourism

JEL Classification: L 83

1. Introduction

Overall, the tourism industry has dictated a double direction to the processes that coordinate the world global economic system, such as globalization or general economic development. The tourism industry has been not only influenced, but also the beneficiary of their effects, simultaneously with the impetus that global tourism has generated, on the one hand through its capacity to stimulate the development of states and to accelerate the process of global economic integration, and, on the other hand, through the internationalization of tourism activities and through connecting people and countries all over the planet. Nowadays tourism contributes substantially to the improvement of the standards of living, to economic growth, to the enhancement of people's opportunities and chances to a better life, to the fight against poverty, to the intensification of environmental protection activities, as it is a field with ample implications in people's lives everywhere.

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2. Debates regarding the transition from economic growth to economic development

Economic growth is nowadays a complex topic, debated in scientific circles, the latest studies highlighting the importance of the application of sustainable economic development and the renunciation to traditional growth. What is interesting is that, although this phenomenon of growth has been blamed for the various present crises of humankind, it has always represented the centre of economic policies and the desideratum of all nations. The race for economic growth has affected and is continuously affecting a lot of developing countries, while "all the economic plans of developed countries, with no exception, have aimed at the highest level of economic growth" (Georgescu-Roegen, 2006). Forcing economic growth has governed all the economies of developed countries, determining the struggle to obtain competitive edge at all levels, without taking into consideration the warnings of ecologists regarding the *"ecological imprint of humankind, more precisely the ability of the environment to bear the human species in a sustainable way"* (World Watch Institute, 2006, p.4). Economic growth has led to a high rate of depletion of resources and to intense environmental pollution. In the present-day context of the world, the traditional objective of growth must be replaced with that of development, which should draw attention to the human being and the environment, not to the race of improvement of scores for some indicators (evidence for that is the content of economic growth indicators, which include as growth weapon production, but do not calculate, for instance, life standards).

The terminology used to refer to the concept of economic growth is wide, as a series of notions such as economic growth, economic progress and economic expansion coexist. What is remarkable is that, although in economic literature the term "economic growth" is often employed with the meaning of "economic-social development", or "economic-social progress", it has quantitative features, expressing functional relations between the variables involved in this process, factors upon which the domestic product and revenue depend (capital, labor, land, information, innovation, organization, leadership, organization, technical progress).

To the purpose of clarifying terminology, we should pinpoint from the beginning the notions of "economic growth", "economic development" and "sustainable development", which will be used often in this paper.

If the concept of "economic growth" refers, in a simplified definition, to the quantitative growth of some macroeconomic synthetic indicators, "economic development" is the term with more complexity, indicating especially the qualitative aspect of economic changes. In analyzing economic development, Professor Ion Bulborea defined this concept as *"a complex and dynamic process that entails the improvement and perfecting of social-professional structures, the assimilation of technological-scientific accomplishments, at the micro- and macro-levels"* (Bulborea, 2006, p.24).

From the analysis of the main terms used to define development, we can extract the exact meanings that have been unanimously accepted by the economic circles worldwide: if the notion of growth has been widely debated already, economic development and progress remain insufficiently discussed. While economic development stresses the qualitative and structural aspects of the process of growth, in view of reaching certain objectives such as the improvement of welfare and life standards, economic progress refers to the positive evolution of various economic, social, technological, cultural, political areas, based on the complementarity of the processes of growth and development.

Practically speaking, the economic development theory has a wider mission, that of creating the theoretical support for the streamlining of the allocation of rare production resources and of the way in which these support sustainable economic growth, but also the analysis of interdependencies and overall functionality of economic, social, political mechanisms and the mechanisms of public and private institutions. Consequently, the theory of economic development must concern itself with "the economic, cultural and political requirements needed to effect rapid institutional and structural transformations in the whole of society, so that economic progress should be obtained for large population segments" (Jula, Ailenei, Jula, Gârbovean , 1999,p.10).

The interdependency between economic growth and economic development is supported by the argument that, on the background of economic development, economic growth materializes both in time and in space, and the relationship between the two concepts is that form part to the whole, in the sense that ***any economic development presupposes economic growth***, but the opposite does not apply, meaning that ***not all growth presupposes economic development***. This idea has been expressed clearly by Professor Dudley Seers, a supporter of the theory of economic development oriented towards the social component: "Thus, what needs to be asked as far as the development of a country is: What happened to poverty, unemployment, inequality? If the three reached high levels before and now they have diminished, we may assert without equivocation that there has been a process of development in the analyzed country. But if one of these fundamental problems has worsened, and if, moreover, all of them were present, we cannot call this process "development", even though the *per-capita* income has multiplied by two." (Seers, 1969)

The concept of economic development has multiple connotations given by the multiplicity of inter-disciplinary interferences between the economic field and those of the social, the cultural, the political, the ecological and the environmental protection, manifesting itself under the influence of certain fundamental values[1] (such as: *sustainability* (the ability of economic development to ensure the coverage of all basic needs for as many members of the population of a country as possible), *self-respect* (the individual's esteem of one's own personality, a condition explained by Maslow's law, which places the need for self-esteem and accomplishment of personality on the superior levels of the pyramid, defining through economic

[1] Adapted from Jula D., Ailenei D., Jula N., Gârbovean A, 1999, p.15.

development people's orientation towards superior needs) and *liberty* (the capacity of the human being to free oneself from social servitudes such as ignorance, dependency, dogmatic beliefs etc. – "the advantage of economic growth is not that of the happiness of increased wealth, but that of the enhancement of people's possibilities to choose" (Sir William Arthur Lewis, laureate of the Nobel Prize for Economy).

3. Human development, an imperative of sustainability

The concept of human development is one of the most used phrases nowadays, one to which special attention is granted by all specialized bodies, but also by world governments through economic policies that have in view *sustainable development* as a model for long-term development to the advantage of the present and future generations. It is, in fact, the ***new paradigm of development, in the circumstances in which it has been approved that sustainable development is most often regarded only from an environmental perspective, and not from a holistic one, of individual-environment-development.***

Starting from the idea that development represents a process that reunites the ensemble of elements that contribute to the positive changes in the quality of life of individuals and of society, in the case of both material elements and intangible ones, the concept of human development demonstrates, through its central element – the "human being" – that development is more than a statistics of the increase of specific economic indicators, that it is a new outlook that pursues the creation of a an adequate environment in which the human being should be able to reach one's own development level according to one's interests and desires. According to the 2011 UNEP Human Development Report "**human development is the expansion of people's freedoms and capabilities to lead lives that they value and have reason to value. It is about expanding choices**" (UNEP 2011). Human development is the process of widening opportunities for people. Such a development presupposes the creation of opportunities for individuals to choose the values and lifestyles that they consider proper for their existences.

Human development is more than economic development, which in this outlook becomes only a means to widen choice and to support the development of personal skills.

The philosophy linked with this type of development, announced as early as Aristotle's writings, and adopted by twentieth-century writers as a theory of ethics, has imposed itself as a modern field of study, not only with the help of economics or social sciences, but also through the contribution of specialists from other sciences such as medicine and anthropology. In 1971, Denis Goulet presented the "three basic components of the theory of development: decent life standards through the satisfaction of primary needs of individuals (security, food and shelter), self-respect and liberty"(Goulet, 1971, p. 87).

Subsequently, Amartya Sen, laureate of the Nobel Prize for economy in 1998 for his contribution to economic development, introduces the term of human development, a concept that has been researched in-depth by Mahbub un Haq, who has incorporated it in the conception of the Human Development Index (HDI). Based on this research undertaken by the two economists, in 1990 the first Human Development Report was drawn, which had henceforth been reanalyzed and improved every year, constituting one of the main sources of analysis of the real state of nations. The 1991 report clearly stipulated that all researchers and all official bodies need to acknowledge that people must be considered both ends in themselves, and objectives of the economic development, and that "development must be constituted around people, not the people around development.(UNDP, 1991)"

Human development is approached differently from classical theories referring to economic growth, the formation of human capital, the development of human resources, the welfare theory, or that of basic (primary) needs of individuals.

While economic growth is a necessary but insufficient condition to obtain progress in the field of human development, the theories referring to the formation of human capital and to the development of human resources treat individuals mainly as a resource and not as an end in themselves, focusing on their analysis as tools used in the production of goods and services. Although people represent an essential component of the process of production, they should not be regarded from the perspective of "capital goods", but from that of the end beneficiaries of this process. That is why we may say with certainty that these two theories ignore an important part of human development.

4. The relationship between economic development and tourism

Tourism is nowadays an important sector of global economy, being considered, not only by specialists but especially by world governments, as one of the most efficient ways of economic development, with ascending trends internationally. Also, tourism is seen as a major activity in the life of nations due to the direct influence on social, cultural, educational and economic sectors, with wide access to international exchanges. In other words, there is no other economic activity that can overlap with so many sectors, branches and interests as tourism. Due to the complexity and deep implications of tourism in human activity, a vital need for integration and harmonization is signaled, at a global level, of all the strategies of economic development and of the resource management programs with tourism projects. In other words, tourism seems to become one of the main paths towards global economic development and towards the improvement of social welfare in all destinations and for all countries where tourism is harmoniously integrated with the environment and with the local community.

4.1. Economic growth, the central axis of the development of the tourism phenomenon

In the analysis of the economic system of the last thirty years, sometimes dramatic changes are easily noticeable within the economic structure, changes that have occurred as a result of the decline of certain industries that had been considered as fundamental by then (the mining industry, ship construction industry and even agriculture), together with the rapid growth of those pertaining to the service sector, among which tourism, the IT industry and telecommunications, or the air transport industry.

Regarding the tourism industry, it has known a radical transformation in the last quarter of the past century and in the first years of the new millennium, advancing rapidly from what economists considered to be a caprice of the rich layers of society, called at the beginning of the 90's as the "pleasure principle" (Middleton, Clarke, 2001, p. 14), to being a part of the post-industrial modern society. At present tourism represents a key element of the life of developed societies, and, more than that, an economic incentive that brings about growth in other sectors.

Specialized literature considers that tourism can be analyzed from the perspective of a double acceptation:

- tourism ***evolves as a result of general economic growth***,
- tourism ***accelerates general economic growth***.

The first acceptation can be supported using the example of under-developed countries. Although they make considerable efforts towards tourism development, seen as the easiest method to obtain economic growth, they discover that these efforts are seriously restricted by the limitations of their economies.

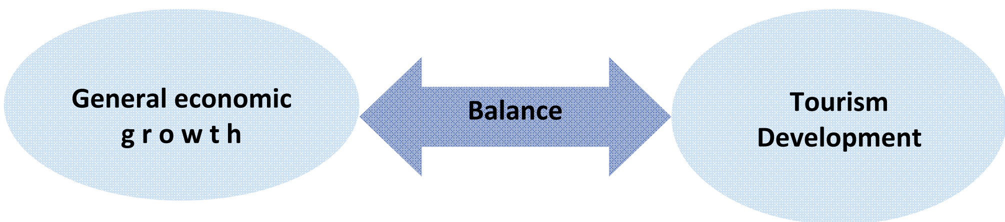

Fig. no. 1. – The relationship between economic growth and tourism development

The deficit of the balance of payments, the incapacity to draw foreign investments, population poverty, the precariousness of tourism infrastructure, the lack of competitiveness of destinations, sometimes conflicts or the visitation high risk rate for these countries (high criminality, high contagion risk and inappropriate health services), the low index for the availability of the tourism market lead to major implementation and development difficulties in tourism which requires a safe environment for tourists, quality or at least satisfactory services and products, facilities and amenities that allow the normal unfolding of tourism activities. ***Tourism is tributary to economic growth, this being an essential condition for the transformation of isolated tourism activities into a profitable sector for the respective country or destination.*** In other words, ***economic stability and a certain level of development represent the imperatives of tourism, without which it cannot reach the level of a mechanism of economic growth.***

In the case of the second acceptation, the quality of tourism of representing a tool for economic growth resides in the economic-social benefits and the positive impact that this sector may have on local destinations and communities: the decrease of the unemployment rate, the increase of foreign investments, of available currency, of operating revenues, of taxes on economic agents and countless other benefits that will be analyzed in what follows.

4.2. Tourism, a factor of economic-social development

The theory of economic development and tourism have evolved in parallel after the Second World War, but, despite this, few resources have been dedicated to the research of connections between these two fields. This fact is surprising if we take into consideration that tourism is a key element of the economic development policies in a lot of countries and regions that are in tight competition for the benefits brought by the tourism industry, benefits that translate in figures into: revenues from international tourism, which are estimated to raise up to USD 2000 billion in 2020, in the context in which the number of international arrivals will surpass 1.6 billion, as stipulated in *"Tourism 2020 Vision",* the World Tourism Organization's long-term outlook and assessment of the development of tourism. For 2010 only, despite the present-day economic-financial crisis, or the galloping development that has characterized the evolution of tourism especially in the past few years, a number of over 940 million international visitors was predicted (UNWTO, 2011). We should note the fact that this figure does not include domestic tourism, which is considered to be a few times more substantial than the international one. Surely, such tourism turnover has a major influence on the economy, on society and on the environment, even more so since tourism is acknowledged as having both a positive and a negative impact, not only directly in the case of the field, but also through indirect effects, some of which are upon other sectors and aspects of life. The field complexity and vastness, as well as those of its implications are nowadays thoroughly researched, not only at an academic level but also at political and strategic ones by all states, governments or international bodies that coordinate global economic orientation, having in view the optimization and the streamlining of development methods and means, and to balance the welfare of all nations and fight drawbacks and serious problems worldwide.

"Tourism is a strategic economic sector whose potential is far from being fully capitalized upon in industrialized countries" (OECD, 2008, p.15), while the rest of the countries are rapidly entering the arena. As markets become homogenous, tourism will spread all over the world, not only from the perspective of the countries that are gaining advantage, but also from that of the people who practice it, as there is the certainty that this field will shift from the economic role to the social one: a field for the people, which would reflect not necessarily economic welfare, but the way in which humankind will reach its desiderata of harmony, happiness, culture and civilization.

In the context of global tourism, a lot of international political organizations draw attention to the acknowledgement of tourism as an industry in its own right and as a priority field for the governments. The data and reports presented by these organizations (the United Nations, UNWTO, OECD) demonstrate the economic impact of tourism, but also the perspective that through tourism the main objectives of human development can be reached: the reduction of poverty, of the economic difference between countries, the improvement of life standards, the access of the destitute population to health services, to education and public utility, the interest in the preservation and conservation of the environment, the creation of a peaceful environment and many others. From this perspective of potential benefits, tourism is clearly delineated from other economic sectors as one of the few fields that can contribute multilaterally, on the economic, social, political and environmental planes to the desideratum of human development everywhere.

Tourism is considered ***the economic field that is most compatible with sustainable development, especially with its human dimension***, acting out as a stimulating factor for them through its capacity to:

- generate workplaces, being a sector that is characterized mostly by human labor and less by mechanized labor;

- create employment opportunities for both intellectuals and under-skilled people, as it is an industry that grants labor chances to women and young people, which are usually unflavored categories in the other economic activities;

- contribute to the growth of local and domestic revenues, for both the respective companies and the state and authorities;

- contribute to the emergence of new products on the market that are related to the tourist consumption patterns (souvenirs and locals' handiwork – sometimes real manufacturing industries such as the pottery industry, local cosmetics industry, car rentals or sports products);

-contribute to the diversification of local economy and the growth of connected industries that provide for tourism, through its multiplying effect (transportation, agriculture, pisciculture, constructions, hotel architecture and design, telecommunications, IT etc.);

- offer special opportunities for the establishment of new companies, especially low- and medium size enterprises (SME), stimulating the local private initiatives to activate in the field;

- impose and stimulate the development of the general infrastructure: airports, ports, roads, utility services such as the water network and sewerage, energy etc., form which the resident population benefits as well;

- bring renown and acknowledgement to a certain destination, contributing to the creation of a positive image for the area in question;

- attract, through the development of the general infrastructure and the creation of a business environment, other activities such as commerce, consultancy, real estate, or even investments in production companies that do not necessarily have a connection with tourism but which find a dynamic niche that supports development (for instance the Rhodes Isle which, despite being known for the beauty of its scapes, the richness of the cultural sights, the quality of the heliomarine factors, has developed in the last years as a shopping destination, the isle having over six thousand shops with the most famous brands in the world);

- support the activities of preservation of the local traditions and heritage, through the interest manifested by tourists in knowing the cultural and ethnic, folklore specificity of every destination;

-impose the environmental preservation and protection measures for the conservation of the natural habitat and scapes, an essential condition for tourism;

- raise interest in investments in entertainment amenities (theme parks, relaxation areas – natural parks, green spaces, promenade spaces, ski slopes, investments in special equipment needed for various sports, urban scapism etc.) from which locals can benefit as well, but which would not have developed otherwise, in the absence of tourism;

- valorize the resources that cannot be used by other economic sectors: scapes, the natural environment, the cure and dietary factors, history, traditions and culture, having the possibility to develop strictly on the basis of local products and resources;

- improve the educational and cultural levels as well as life standards, leading to the improvement of the quality of life for the locals;

- contribute to the attraction of foreign investors, especially in hotels and specific accommodation, food and entertainment amenities;

- facilitate the transfer of technology from the countries or regions that possess "know-how" together with investments and the tourism development of the region.

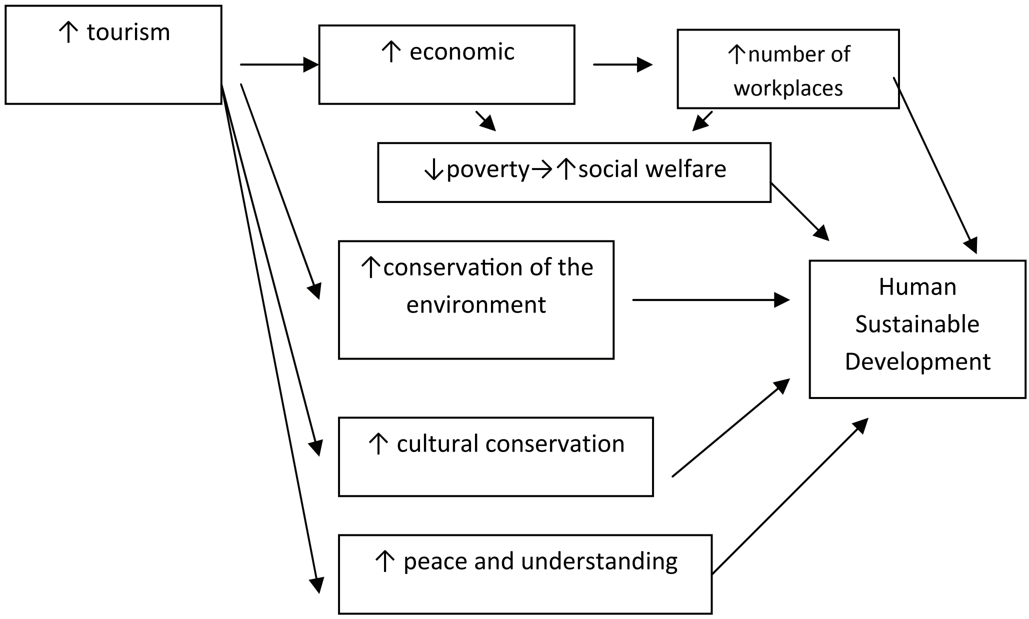

Fig.no. 2- The contribution of tourism to human sustainable development

Tourism plays an important part in the economic and social life of numerous countries in the world, contributing to economic growth, fighting poverty, helping cultural conservation, environmental protection, the creation of a peaceful environment, which are practically all objectives on the list of human development. Drawing a general comparison with other sectors, it is clear that tourism holds advantages that are superior to other industries or fields of activity, at least through the capacity to infiltrate in various sectors of global economy. These advantages are worth researching, more so as they have multiple implications, and not only positive ones, on the human being and on the environment.

Conclusions

Tourism is only in its incipient stages of development, being treated for now as an effective tool for the generation of currency resources, for the creation of workplaces, for drawing investments and for the promotion of economic power, representing both a basis for economic development and a factor of environmental preservation. Nevertheless, for the future we attribute to it valences that will bear relevance to the human sphere more than to the economic one, which will distinguish it from the rest of the economic sectors and will place it within the category of arts and culture or the domains connected with spiritual welfare.

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LOANABLE FUNDS, SAVING & INVESTMENT, AND FINANCIAL ASSETS

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Abstract

We claim that macroeconomic modeling in terms of financial assets is superior to the more traditional model of loanable funds. One advantage of this perspective is that it allows us to take cognizance of the fact that the world is complex: there are many more than one market involved. It also enables us to shed light on the fallacies of "netting out" consumer borrowing and lending. As well, placing "the" interest rate on the vertical axis is problematic, as there is no invariant measure of the value of an asset. We take the position that the usual analysis of a single money market is a simplistic way to analyze a complicated situation. We argue that a focus on the market for loanable funds leads directly to the erroneous Keynesian money model.

Keywords: heterogeneous capital, gross and net saving and investment, financial intermediation, hoarding

JEL Classifications: D91, E2, E21, E32

I. Introduction

Austrian economics is, inter alia, an attempt to input realism into the dismal science. There is perhaps no greater need for this sort of approach than in the field of macroeconomics in general, and with regard to loanable funds, money, saving and investment,[1] and financial assets (financial securities) in particular. This paper

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[1] As is not uncommon in economics, the terms "saving" and "investment" are equivocal. They may

attempts to apply a modicum of realism to these fields, while making the case that the mainstream neoclassical tradition is wanting in these arenas of study.

In section II we discuss loanable funds in contrast to saving and investment and in section III discuss financial assets versus saving/investment and loanable funds. The focus of section IV is to demonstrate that reasoning on the basis of "the" market for loanable funds is inappropriate. Section V concerns "netting out" consumer borrowing and lending and section VI deals with financial securities. We conclude in section VII. There are also three appendices: the first elaborates on geometrical considerations, the second presents a summary of our argument in table format and the third offers an algebraic treatment.

II. Loanable Funds v. Saving & Investment

According to Austrian business cycle theory (ABCT), market interest rates greater (less) than the relevant "natural" rates cause an excess (shortfall) of planned financial saving relative to planned financial investment.[2] "Natural" rates, in turn, are those that would arise in a free market[3] based upon underlying time preferences, perceptions of risks of all types, and expected productivities, and other factors.[4] These natural rates would prevail in the absence of monetary inflation in the form of injections of new money into credit markets; i.e., they are the rates that would exist if new money was not lent into existence by government or through fractional reserve banking. We have all seen the figure (e.g., Garrison, 2001, p. 37) with "the" interest rate measured along the vertical axis and the quantities of saving and investment or, alternatively, the quantity of loanable funds, measured in monetary terms along the horizontal axis.[5] Featured in such diagrams are a downward-sloping investment curve

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refer to "financial" or "real" saving or investment. Financial investment is refers to the purchase of financial assets; e.g., stocks, bonds, and bank deposits, whereas real investment refers to the production of capital goods, and, in its most broad sense, consumer's durables and human capital, as well. For more on this latter point, see Barnett and Block, (2007A).

[2] Although it is, of course, possible, for the *plans* of financial savers and such investors to differ, they are identical ex post, being brought into equality, ceteris paribus, by fluctuations in interest rates, whereas real saving and investment are *identical*, and therefore cannot differ (Barnett and Block, 2007A). Real saving/investment is brought into accord with people's preferences via changes in relative prices.

[3] In a free market there would be absolutely no governmental interventionism in any form regarding credit markets and institutions.

[4] On this, Barnett and Block (2006).

[5] In some cases, the figures are consistent: the horizontal axis is labeled "loanable funds" (saving and investment) and the curves are labeled supply of, and demand for, loanable funds (saving and investment); however, in others, they are inconsistent: the horizontal axis is labeled "loanable funds" and the curves are labeled saving and investment, implying necessary one-to-one relationships between saving and the supply of loanable funds, on the one hand, and between investment and the demand for loanable funds, on the other. For examples of a consistent and an inconsistent case see, respectively: Garrison (2001, 37); Garrison (1996, 113). Because of this, hereinafter when referring to this type of analysis, the terms "saving/supply-of-loanable-funds" and "investment/demand-for-

and an upward-sloping saving curve or, alternatively, downward-sloping demand for, and upward-sloping supply of, loanable-funds curves. The market thus depicted is referred to as the "loanable funds"[6] market. It is used to illustrate the difference between a decrease in the social time preference, and an artificial increase in the supply of credit that arises in the act of government or fractional reserve banks creating "deposit money."[7] Either causes an outward shift in the savings/supply-of-loanable-funds curve. (Figures 1A, 1B, 2A, 2B, 3A, and 3B in appendix 1 show these various ways of depicting the "loanable funds" market.) At the initial market clearing rate of interest the "saving/loanable-funds (now) exceeds investment/demand-for-loanable-funds;" i.e., there is a "surplus of saving" or, alternatively, "a surplus of loanable funds," which surplus causes the interest rate to fall until a new market clearing rate[8] is established at the intersection of the new saving/supply-of-loanable-funds curves and the old investment/demand-for-loanable-funds curve.[9] Although this may be a useful pedagogic device, it is not without its faults.

Let us consider several difficulties with the analysis so far.

1. As real investment/saving is a form of production,[10] and what is produced are heterogeneous capital goods,[11] the only way they can be meaningfully aggregated for measurement is to use the common denominator of monetary value. However, as we know, Cambridge, England's Neo-Marxists-Neo-Ricardians-Post-Keynesians decisively defeated Cambridge, Massachusetts' neoclassicals precisely on this point, by elucidating the fact that the price of an asset is based on the present value of the net cash flows expected to be generated therefrom in the future, which value will fluctuate with "the" discount rate, and, therefore, there is no invariant measure of the value of an asset (Harcourt, 1972, 46; Cohen and Harcourt, 2003). How then do we measure the value of saving and investment on the horizontal axis? Most authors

loanable-funds" are used.

6 Garrison (2001, 37), also refers to it as the market for "investable resources."

7 Were new money spent, rather than lent, into existence the effect in the loanable-funds market would be indirect and undoubtedly of considerably less magnitude.

8 This is an oversimplification. One of the factors held constant along the invest/demand-for-loanable-funds curve is the creditworthiness of the borrowers. If at the relevant interest rates lenders are willing to accept greater risk of default then the investment/demand-for-loanable-funds curve shifts outward; i.e., the demand increases. In that case actual interest rates will decline by less than they otherwise would. In fact, depending upon the extent to which lenders reduce their standards, actual interest rates might not fall at all, or might even increase. Of course, in any of these cases the (default) risk adjusted interest rates necessarily decrease.

9 In the former case, the new lower rate is warranted by the decreased time preference and the result is faster capital accumulation and growth. In the latter case, the new lower rate is not justified on the basis of consumer preferences for present and future spending; it is artificially low, below that consistent with an unchanged time preference, and initiates the artificial boom in the form, of an unsustainable misallocation of resources, and consequent crisis and bust. On this see, e.g. Garrison, 1996, pp. 111-123, especially p. 112.

10 For a defense of this claim see Barnett and Block (2007A).

11 For purposes of this paper we exclude durable consumers' goods and human capital.

who draw such diagrams take the position that the relevant market is that for loanable funds. They aver that the supply is provided by those (lenders/households) whose income exceeds their desired expenditures on consumers' goods at various rates of interest and the demand is by provided by those (borrowers/businesses) whose (net) income falls short of their desired expenditures on new capital goods at various interest rates.[12] In this case if we measure the quantity of loanable funds offered and bid for, in the loanable-funds market in monetary terms, we have the problem of an inconstant measure, because of inflation or deflation.

2. The implication of the model depicted above is that interest rates are the price of saving and investment and they fluctuate to clear the "saving-investment market," i.e., to coordinate the actions of savers and investors. Although this analysis is deeply embedded in the economics profession, it is incorrect.[13] To the extent that fluctuations in interest rates (rather than in the prices of financial assets – to be sure there is a one-to-one relationship between the two for any given financial asset) clear markets, they are *credit* markets, not some non-existent markets for saving and investment.

This can be seen with the aid of a thought experiment. Imagine an economy in which the only goods produced were consumer services and consumables.[14] That is, one in which there is no saving and investment. Even in such an economy there could be credit – A lends B two apples today for three apples one year from today; therefore, there can be interest and interest rates even absent money, saving, and investment. This, of course, is because, even in a no saving and no investment environment, there can and will be (positive) time preference. Note that although there can be interest and interest rates in a barter economy, the only situation in which they are calculable is that in which what is promised in return for the loan is a quantity of the same good: two apples today for three apples one year from today yields interest of one apple on a principal of two apples for an interest rate of 50% per annum. What however is the quantum of interest and, a fortiori, the interest rate for: three apples today for four (or, perhaps, two) *oranges* one year from today? It is impossible to answer this question intelligibly.

3. An additional problem pertains to the concept of gross in contradistinction to net. That is, the use of saving and investment; i.e., the identification of saving and investment, with loanable funds, facilitates the avoidance of analytical problems

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[12] Of course, to the extent that the borrowers spend the funds on consumers' services and non-durables this is not "investment," under any criterion. Even if this is referred to as "saving" by the lender, it is used for the purpose of "dissaving," not investment, by the borrower.

[13] It is true that Keynesian analysis maintains that under certain conditions interest rates can not decrease sufficiently to equalize saving and investment, thereby necessitating decreases in income to complete the task, but this is irrelevant for the point at hand. The relevant flaw in Keynesian analysis is the idea that "the" interest rate is determined in "the" market for money; i.e., "the" interest rate is "the" price of money. But this is a flawed concept. (Barnett and Block, 2009)

[14] This is obviously a barter economy because there are no capital goods and money is a capital good. For more on this see Barnett and Block (2005).

arising out of financial intermediation. The use of financial assets forces us to face these problems, squarely. We are forced to consider a multiplicity of markets for financial assets, realizing that the suppliers in some are demanders in others, and that it is precisely those funds they receive as suppliers of financial assets in some markets that allows them to be demanders of different financial assets in the others; e.g., banks sell certificates of deposits and then use the funds, at least in part, to buy notes. Perhaps more relevant in the current economic environment are "asset backed securities," forms of derivatives in which the "assets" are themselves financial securities; e.g., credit-card receivables and those Collateralized Mortgage Obligations (CMOs) the Ms of which are sub-prime "mortgages."[15] Some economic actors (those in surplus) do not wish to exercise direct control over the entirety of their wealth. There are others (those in deficit) who wish to exercise command over more than the entirety of their wealth. We must analyze the role that the prices of assets, real as well as financial, play in bringing into harmony the plans of these diverse economic actors. Moreover, because some people exercise direct control over at least a part of their wealth for the purpose of investment, the role played by asset prices in affecting these decisions must also be considered. That, is we must examine, in light of the current structure of consumption and production, the effects of the preferences of individuals in their roles as consumers, for current and future consumption. Within those categories, we must study different individuals' consumers' goods or assets, and their preferences, in their roles as producers, for capital goods and human capital, and how these are manifested in the markets for assets, including importantly the markets for financial assets. For as these preferences affect asset prices they necessarily influence the allocation of resources. And, of course, these asset prices can be affected not only by changes in preferences, but also by injections of fiat credit.

III. Financial Assets v. Saving/Investment and Loanable Funds

Real saving and investment are identical both ex ante and ex post. We speculate that the reason the same objective phenomenon – production of capital goods, human capital, or consumers' durables – has two (2) entirely different and completely unrelated names is because we look at the phenomenon of preparing for future consumption through two very different lenses, those of: 1) he who tries to prepare for the future not by producing for himself durable consumers' goods he wants now or expects to want in the future (the specific nature of which, presently, he is not even sure) or capital goods or human capital, but by, in his own eyes, refraining from current consumption and making the resources so freed available to 2), he who tries

[15] The term "mortgage" is commonly misused to mean a note; i.e., a written document that is evidence of a debt. In fact a mortgage is a security device whereby a debtor pledges a piece of property as security for the debt evidenced by the note.

to provide, directly or indirectly, for the satisfaction of future consumption wants[16] by actual production of consumers' durables now or of consumers' goods of any type in the future by acquiring control of resources and directing them to the current production of consumers' durables, human capital and capital goods.

Both real saving and real investment are acts of production of capital goods, human capital, and/or consumers' durable goods. Failure to recognize this fact leads to confusion regarding "the" loanable-funds market. Garrison (2001, 36-40) analyzes the market for loanable funds, or as he also refers to it, "investable resources."[17] The figure he uses to illustrate his discussion (Garrison, 2001, 37, fig. 3.1) displays saving and investment on the horizontal axis,[18] the interest rate on the vertical axis, and an upward sloping saving, and a downward sloping investment curve. He is able to do this because his analysis allows him to equate saving and investment with the supply of, and demand for, loanable funds, respectively.[19]

Garrison (2001, 36) includes "saving in the form of the purchasing of equity shares" in the supply of loanable funds; i.e., funds spent in purchasing equities are included in the supply of loanable funds. This is quite correct and adds to our understanding of the issues. Garrison (2001) can and should be read to include under this rubric, and correctly so, businesses' supplies of loanable funds. However, when he states that they are "saving [sic] by *all* income earners made available to the business community to finance investment, to facilitate capital accumulation, to maintain and expand the economy's capital structure" [emphasis added], this is implicit, whereas for the sake of clarity it should be made explicit. This author (2001, 36) also includes retained earnings in the supply of, and in the demand for, loanable funds on the grounds that "[r]etained earnings can be understood as funds that a

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[16] His own or more usually and more importantly those of others.

[17] "In view of the netting out of consumer lending and the broadening to include retained earnings and equity shares, 'loanable funds' may be better understood as 'investable resources,' a term that emphasizes the purpose of the borrowing. This understanding is consistent with that of Keynes (1936: 175): '[According to the classical theory], investment represents the demand for investable resources and saving represents the supply, whilst the rate of interest is the 'price' of investable resources at which the two are equated.'" Garrison (2001, 36).

[18] These are necessarily financial saving and financial investment in his analysis as he is able to add increments in the stock of money to saving (Garrison, 2001, 69, fig. 4.4). Because for him the "loanable-funds market and the PPF are explicitly connected by their common axes measuring investment" (Garrison, 2001, 50) where investment in the production-possibilities figure is measured in real terms (Garrison, 2001, 42, fig. 3.3), these figures are inconsistent. For another take on the inconsistency of these two measures of investment related to the actual vs. the potential/future, see Hülsmann (2001, 39-40).

[19] Because this market is better understood as "the" market for financial assets (including deposits and equity securities), we treat it in those terms. Graphically, "the" price of financial assets is placed on the vertical axis and the quantity of such assets on the horizontal axis, figures 4A and 4B in appendix 1. (The quantity of financial assets is measured not in terms of the quantity of securities, but, rather, similarly to the cases of loanable funds, financial saving, and financial investment, in monetary terms; i.e., the total monetary value of the securities.) The demand curve for such assets slopes downward and the supply curve, upward.

firm lends to (and borrows from) itself." Although not objectionable, this adds nothing to the analysis[20] as, being added to both supply and demand, they net out.

Of course, this is not to say that retained earnings have no effect on credit markets. Obviously, the greater are retained earnings, ceteris paribus, the less is the demand for loanable funds and the lower are actual interest rates. Analogously, if one is concerned with prices of cars, one does not add the quantity of "pre-existing retained cars" into the demand for, and also the supply of, cars. However, just as retained earnings affect interest rates, so also do pre-existing retained cars affect the prices of automobiles; to wit: the greater the number of retained pre-existing cars, ceteris paribus, the less is the demand for them and the lower are actual car prices.

However, Garrison (2001, 36) also nets out "consumer lending" on "the supply side of [the loanable funds] market" because "each instance of consumer lending represents saving on the part of the lender and dissaving on the part of the borrower." This, in contrast, is objectionable. Certainly, there is no necessary reason why households' supplies of loanable funds would increase (decrease), and that by the identical amount in total, if their demands for loanable funds rose (fell); i.e., merely because a family's demands for credit increase (decrease) there is no praxeological reason that their supplies of credit should also rise (fall), and by the exact same amount to boot.

Consider, for example, the case in which households' demands for loanable funds (supplies of financial assets) decreased and the supplies of loanable funds (demands for financial assets) either did not fall by as much, or did not diminish at all, or, perhaps, even increased. In such a case the prices of financial assets would rise with attendant decreases in the yields thereon. And, the sales of financial assets by businesses would swell in response to the higher prices of financial assets; alternatively, the quantities of credit demanded by businesses would rise because of the reduced interest rates.

Garrison (2001, 36) also can, and should, be read as taking into account hoarding when he states that "[t]he supply of loanable funds, then represents that part of total income not spent on consumer goods but put to work instead earning interest (or dividends)," however, the point is only implicit when it should be explicit. Perhaps the biggest problem with modeling in terms of loanable funds can be made manifest if we make explicit the fact that loanable funds consist of money, and *only* money. Moreover, at any point in time (or during any period of time) the supply of loanable funds consists, potentially, of the *entire* stock of money. Money can be exchanged for many different goods, including financial assets. Money that is exchanged for financial assets is referred to as loanable funds. Therefore, at any time, the entire stock of money *could* be, but of course is not *necessarily*, used as loanable funds; i.e., the entire stock of money could be lent. How, then, does one determine which part of the money stock constitutes the supply of loanable funds at any point in time (or during any period of time)? It is but a short step from labeling the

[20] However, Occam's razor militates against needless complexity.

horizontal axis "loanable funds," which funds are money, to labeling the axis "money," and arriving at the Keynesian "money market," in which there is "the" demand for, and "the" supply of money which are equilibrated by "the" interest rate. That is, we would here arrive at the typical Keynesian money market in which "the" interest rate is "the" price of money. Moreover, none of this tells us anything about the amounts of capital goods produced during the period; i.e., it reveals nothing at all about the quantity of real saving/investment, which, it will be remembered, is our main concern.

If, instead of "loanable funds," we model "the" market for financial assets/securities we avoid these problems. For this requires us to be specific about the types of securities, new and/or pre-existing, debt and/or equities, and about the nature of the buyers and sellers. That is, the market for financial securities considers, in addition to the standard sales of new securities (demands for loanable funds) by businesses, purchases of new securities (supplies of loanable funds) by households, and increases in the money supply (supplies of loanable funds) by banks, and several other factors such as non-bank financial intermediaries and governments in addition. As a result, several benefits are attained. First, sales of new securities (demands for loanable funds) by households, and purchases of new securities (supplies of loanable funds) by businesses are explicitly taken into account. Second, demands for, and supplies of, pre-existing financial securities (supplies of, and demands for, loanable funds, respectively, by businesses and by households) are incorporated. Third, equities, as well as debt securities are considered. Lastly, neither retained earnings nor hoardings are included as neither involves the purchase or sale of financial assets (see Table 2 in Appendix 2).

IV. "The" market for loanable funds is inappropriate

Consider again the following set of figures: 1A, 1B, 2A, 2B, 3A, and 3B in appendix 1. Figures 1A and 1B illustrate the cases of a decrease in time preference and an injection of money via the credit markets, respectively, modeled consistently in terms of saving and investment. Figures 2A and 2B illustrate a decrease in time preference and an injection of money via the credit markets, respectively, modeled consistently in terms of supply and demand for loanable funds. Figures 3A and 3B illustrate a decrease in time preference and an injection of money via the credit markets, respectively, modeled inconsistently; i.e., in terms of saving and investment with, however, loanable funds measured on the horizontal axis.

Next consider as an alternative figures 4A and 4B,[21] that illustrate the cases of a decrease in time preference and an injection of money via the credit markets, respectively, modeled consistently in terms of the monetary value of financial securities/assets. Let the quantity, measured in monetary terms, not the number of

[21] These figures can be found in Appendix 1.

securities, of financial assets be measured along the horizontal axes.[22] However, gauge the prices of the relevant financial asset(s) along the vertical axes. Then, and this time correctly, there is an upward sloping supply curve for financial assets and a downward sloping demand curve for financial assets.

Some might argue that, at least with respect to banks, and it is through the banking system that the fractional reserve expansion of money/credit occurs, this figure is less realistic than the ones (1A, 1B, 2A, 2B, 3A, and 3B) with interest rates on the vertical axis. Why? Because banks set the terms of new loans to their customers in terms of interest rates. However, the reality is that banks do in fact pay a specific price, the principal less any agreed upon fees, for the note. And, what the bank is buying is a legally enforceable promise by the note seller/borrower to repay a set stream of money in the future. Unlike, say, a set of bonds of a specific series sold by a borrower each of which is identical to every other one, the value of bank notes varies from customer to customer even if the interest rate is the same. This is because the term to maturity and the principal amounts vary from note to note, as may other terms and conditions attached to the underlying loans. Just as interest rates are quoted per annum in order to enable comparisons of loans of different principal amounts and different terms to maturity, the price of the note can be standardized as the price per dollar-of-expected-payments at different times. In reality there are *many* markets for financial assets, with the goods traded in each comprised of assets (or bundles of assets) sufficiently homogeneous to be said to constitute a market; e.g., stock and bond markets. However, even in such markets, to the extent that the assets are not homogeneous, each has its own price.

Moreover, analysis of "the" market for loanable funds is inappropriate, particularly for a theory concerned explicitly with the structure of production. This is due to the fact that it eliminates the whole matter of the term structure of interest rates, a not unimportant consideration for any theory considering the effects on the structure of production of changes in social time preference in contradistinction to injections of fiat credit. Of course, the same is true for "the" market for financial assets.[23]

The same two (2) cases - a decrease in social time preference[24] and an artificial increase in the supply of credit that arises in the act of creating "deposit money" - can be illustrated using these alternative figures 4A and 4B, respectively. Both cause an outward shift in the demand-for-financial-assets curve. At "the" initial market clearing price of (and attendant yield on) financial assets a shortage now exists, which causes the prices of these assets to rise until a new market clearing price is established

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22 Of course, it is the quantity (measured in monetary terms) of financial assets, not loanable funds or saving and investment, that should be measured along the horizontal axis.

23 At the least, then, one would expect that when using such figures to illuminate ABCT three such figures would be used – one each for short-, medium-, and long-term loans, and that, whether using a loanable funds or a financial- assets model.

24 We resist referring to time preference *rates* since there can be no such thing, any more than there can be a *rate* of preference of vanilla over chocolate ice cream. See Barnett and Block, unpub.

at the intersection of the new demand-for-financial-assets curves and the old supply-of-financial-assets curve. In the former case, the new higher price is warranted by lower time preferences (as people now try to prepare to increase their future consumption by acquiring financial assets). They do this by reducing *expenditures* on consumer goods; however, until and unless entrepreneurs respond to this changed behavior, neither the production of consumer nor of capital goods changes, and *there is no change in saving/investment***.** People are trying to save more, but only entrepreneurs can bring these desires to fruition by allocating more resources to the production of durable consumer goods and capital goods, thereby causing more rapid capital accumulation and growth.[25] In the latter case, the new higher price is not warranted; it is artificially high; i.e., it is above the price compatible with the unchanged time preference.

It is the asset-price surge that initiates the artificial boom and consequent crisis and bust. The exchange of money, whether pre-existing or new, for pre-existing or newly produced financial assets, is not an act of saving and investment, but rather a swap of a more liquid asset (money) for a less liquid asset.

V. Netting out consumers

We now offer an example that will use the same demand and supply curves employed in the figures to illustrate the analysis both in terms of loanable funds and of financial securities. To simplify the mathematics, we assume that all financial securities are of the nature of consols that once-a-year pay \$1,000 in interest (I); i.e., I = \$1,000/yr. The price in dollars (P) of such a security is equal to the interest divided by the yield per annum (r/yr); i.e., P = I/r.[26] Then in this case P = (\$1,000/yr)/(r/yr) = \$1,000/r; i.e., P = \$1,000/r.

Loanable Funds,[27] Initial situation; let:

QLF_{DB} = (\$2,000/yr^2)/(r/yr), where QLF_{DB} is the total demand by businesses for loanable funds;

QLF_{DH} = (\$2,000/yr^2)/(r/yr), where QLF_{DH} is the total demand by households for loanable funds;

QLF_D = QLF_{DB} + QLF_{DH} = (\$4,000/yr^2)/(r/yr),, where QLF_D is the total demand by both sectors for loanable funds; and, QLF_S = \$1,600,000•(r/yr), where QLF_S is the total supply of loanable funds.

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[25] It is not necessary that these additional resources be diverted from the current production of consumers' services and non-durables; in the case of human capital, they may come from decreased leisure and in the case of capital goods they may emanate out of "mothballs.

[26] Note that in the equation P = I/r the dimension yr that appears in I/yr and in r/yr cancels out so that the dimension of P is \$, which appears in I.

[27] Note that the quantities of loanable funds are denoted in dollar terms, not the number of notes executed; i.e., one \$100 note is the same quantity of loanable funds as two \$50 notes.

Then the initial market clearing values are:
r = 5.0%/yr and QLF = \$80,000/yr, with
QLF_{DB} @ 5%/yr = \$40,000/yr
QLF_{DH} @ 5%/yr = \$40,000/yr
QLF_{D} @ 5%/yr = QLF_{DB} @ 5% + QLF_{DH} @ 5% = \$80,000/yr
QLF_{S} @ 5%/yr = \$80,000/yr

Subsequent situation; let the supply and the demand by businesses' remain the same but households' demands increase, such that:
QLF_{DB} (unchanged) = (\$2,000/yr^2)/(r/yr),
QLF_{DH} (changed) = (\$3,000/yr^2)/(r/yr),
QLF_{D} (changed) = QLF_{DB} + QLF_{DH} = (\$5,000/yr^2)/(r/yr), and,
QLF_{S} (unchanged) = \$1,600,000•(r/yr),

Then the new market clearing values are:
r = ≈ 5.6 %/yr and QLF ≈ \$89,443/yr with
QLF_{DB} @ ≈ 5.6%/yr ≈ \$35,777/yr
QLF_{DH} @ ≈ 5.6%/yr ≈ \$53,666/yr
QLF_{D} @ ≈ 5.6%/yr = QLF_{DB} @ ≈ 5.6%/yr + QLF_{DH} @ ≈ 5.6%/yr ≈ \$89,663/yr
QLF_{S} @ ≈ 5.6%/yr = ≈ \$89,663/yr

It is obvious that the households' increased demand for credit has led to: 1) a rise in the interest rate; 2) a boost in the quantity of loanable funds borrowed by households; 3) a *decrease* in the quantity of funds borrowed by businesses; and, 4) an increase in the total quantity of loanable funds borrowed by households and businesses, combined.[28] Therefore, it is incorrect to net out consumers' lending.[29]

This result should not surprise Austrian economists. The increase in the demand for credit by consumers is caused by a rise in their time preferences. This causes the boost in interest rates, which in turn results in the decline in the quantity demanded of loanable funds by businesses. Presumably, the decreased borrowings by firms will result in reduced purchases of new capital goods – exactly the actions called for by the rise in consumers' time preferences.

Note that in the typical models of the loanable-funds market, consumers' demands for credit are netted out; i.e., offset against consumers' supplies of credit. Thus, an increase in their demands cannot, and does not, have any effect upon the interest rate nor upon the amount of credit extended to businesses. That is, these neoclassical models assume, implicitly, that when consumers reduce their demands

[28] This is of the nature of the so-called crowding-out effect.
[29] It would be equally incorrect to treat such a change as an increase in supply of loanable funds by households and, thus, as a rise in the total supply of loanable funds, because, although such an augmentation would yield the correct result for the interest rate – a decrease, the effect on the quantity of funds exchanged would be incorrect; to wit: an increase.

for credit they simultaneously decrease their supplies of credit in like amounts. Therefore, the rise in consumers' time preferences that caused the increase in their demands for credit is not made manifest in the financial markets, so businesses do not and need not respond thereto. Were this the case in the real world, this would truly be an example of "market failure."

VI. Financial Securities

In this section we rework the same example used in our section V (Netting out consumers, supra) in terms of financial securities/assets. Again, we assume that all financial securities are of the nature of consols that once-a-year pay \$1,000 in interest (I); i.e., I = \$1,000/yr. Let the demand for financial securities be given by: QFS_D = \$10,000,000/P and the initial supplies of financial securities by businesses and households each by: $QFS_{SB} = QFS_{SH} = 0.2$ P. Then the combined supplies are QFS_S = 0.4 P.[30]

The price in dollars (P) of such a security is equal to the interest divided by the yield per annum (r/yr); i.e., P = I/r. Then in this case P = (\$1,000/yr)/(r/yr) = \$1,000/r; i.e., P = \$1,000/r.

Then the initial market clearing values are:
P = \$20,000 ⇒ i = 0.5%/yr and QFS = \$80,000/yr, with
QFS_{SB} @ 5%/yr = \$40,000/yr
QFS_{SH} @ 5%/yr = \$40,000/yr
QFS_S @ 5%/yr = QFS_{SB} @ 5%/yr + QLF_{SH} @ 5%/yr = \$80,000/yr
QFS_D @ 5%/yr = \$80,000/yr

And, the new market clearing values are:
P ≈ \$17,887 ⇒ i ≈ 5.6% and QFS ≈ \$89,443/yr with
QFS_{SB} @ ≈ 5.6%/yr ≈ \$35,777/yr
QFS_{SH} @ ≈ 5.6%/yr ≈ \$53,666/yr
QFS_S @ ≈ 5.6%/yr = QFS_{SB} @ ≈ 5.6%/yr + QLF_{SH} @ ≈ 5.6%/yr ≈ \$89,443/yr
QFS_D @ ≈ 5.6%/yr ≈ \$89,443/yr

It is obvious that the two (2) models yield the same conclusions; to wit: here is the initial situation:
P = \$20,000 and i = 0.5%/yr and QFS = QLF = \$80,000/yr;
QFS_S @5%/yr = QLF_D @5%/yr = \$80,000/yr;
QFS_D @5%/yr = QLF_S @5%/yr = \$80,000/yr;
QFS_{SB} @ ≈ 5%/yr = QLF_{DB} @ ≈ 5%/yr = \$40,000/yr; and,
QFS_{SH} @ ≈ 5%/yr = QLF_{DH} @ ≈ 5%/yr = \$40,000/yr.

[30]For the derivation of these supplies and demand from those of the loanable-funds model, supra, see appendix 3.

And the subsequent situation:

$P \approx \$17,887$ and $i \approx 5.6\%/yr$ and $QFS = QLF = \$89,443/yr$;

QFS_S @ $\approx 5.6\%/yr = QLF_D$ @ $\approx 5.6\%/yr = \$89,443/yr$;

QFS_D @ $\approx 5.6\%/yr = QLF_S$ @ $\approx 5.6\%/yr = \$89,443/yr$;

QFS_{SB} @ $\approx 5.6\%/yr = QLF_{DB}$ @ $\approx 5.6\%/yr = \$35,777/yr$; and,

QFS_{SH} @ $\approx 5.6\%/yr = QLF_{DH}$ @ $\approx 5.6\%/yr = \$53,666/yr$;

provided that the constituent elements of both the demand for loanable funds and the supply of financial securities are identical; and, that this applies, too, to the constituent elements of both the supply of loanable funds and the demand for financial securities. We maintain that the financial securities model is superior to the loanable-funds model in that it more nearly captures those, and only those, transactions involving the exchange of securities for money, and which therefore affect the prices of and, therefore, yields on, securities. In contrast, the loanable-funds model excludes transactions that affect the prices/yields and includes (non-)actions that do not (directly) affect the prices/yields. Therefore, it is precisely because the constituent elements of the demand for, and supply of, loanable funds are not identical with those of the supply of, and demand for financial securities, which latter more accurately capture the relevant market activity, that the loanable-funds model is problematical.

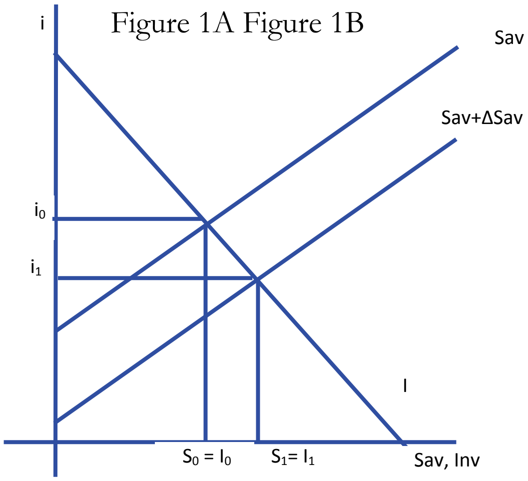
VII. Conclusion

It is time to draw our discussion to a conclusion. Let us summarize the points we have made. A financial securities model is superior to loanable-funds models for three reasons. First, because it directly considers saving and investment, it avoids the confusion involved with the idea that interest rates are determined solely by saving and investment. Perceptions of risk and expected productivities also impact interest rates. Second, because by recognizing that the demands and supplies of consumers do not necessarily totally offset each other, it allows for changes in consumers' preferences to affect the demand for credit independently of the supply of credit; i.e., in loanable-funds models changes in consumers' preferences affect only the supply of loanable funds or saving. The implication is that no consumers' goods are bought on credit. This is clearly false. Third, with respect to capital theory and business cycles, it makes clear that the structure of production, as necessary as it is for sound analysis, is insufficient in itself, and that what is required is a more general concept of a structure of action, that includes a structure of consumption as well that of production. There are three other points with which we wish leave the reader:

First, in a barter economy, interest rates are only coherent for the borrowing and lending of homogeneous goods. Second, there is a symmetry in governmental interferences with credit markets; both increases and decreases are misallocative and unsustainable. Third, a focus on loanable funds leads ineluctably to the non lamented Keynesian money market model in which "the" interest rate is "the" price of money

Appendix 1: Figures

Figure 1A Figure 1B



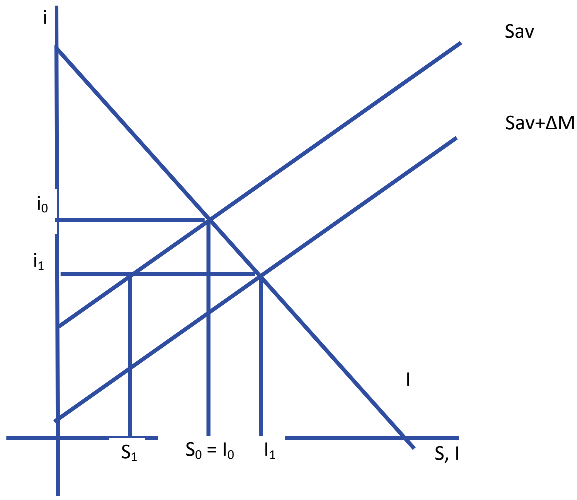
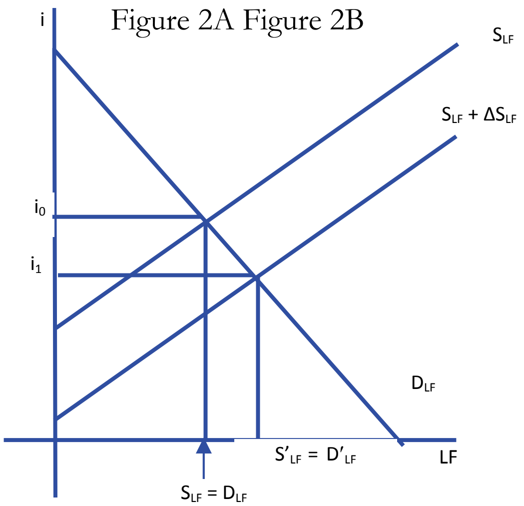


Figure 2A Figure 2B



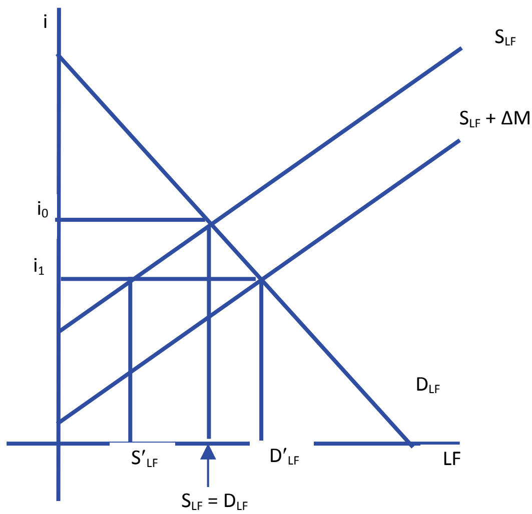


Figure 3A Figure 3B

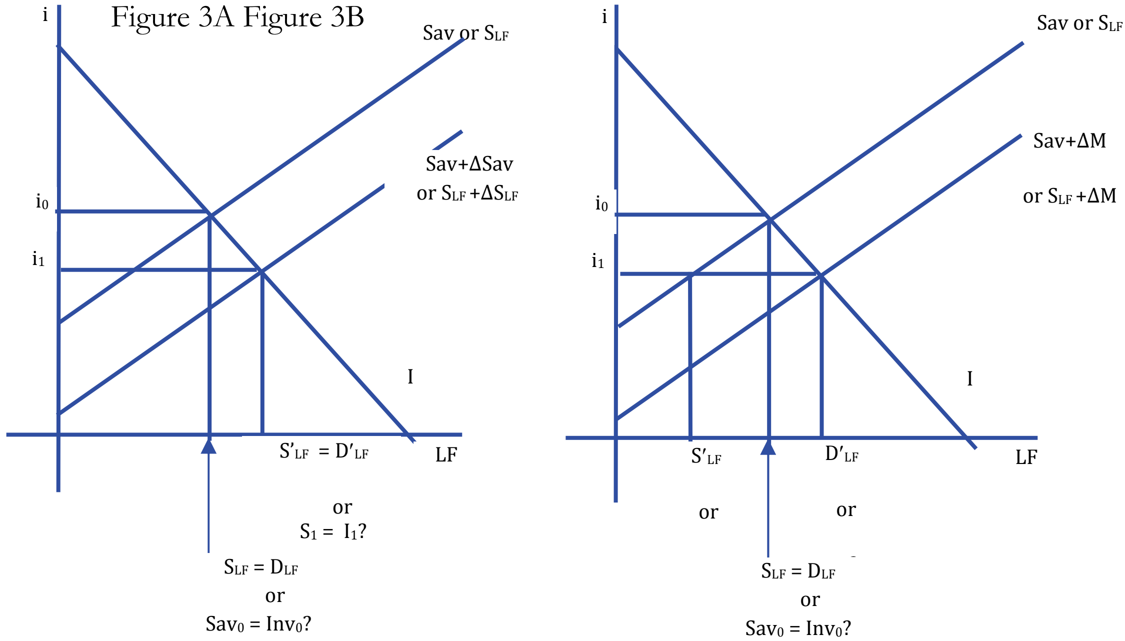
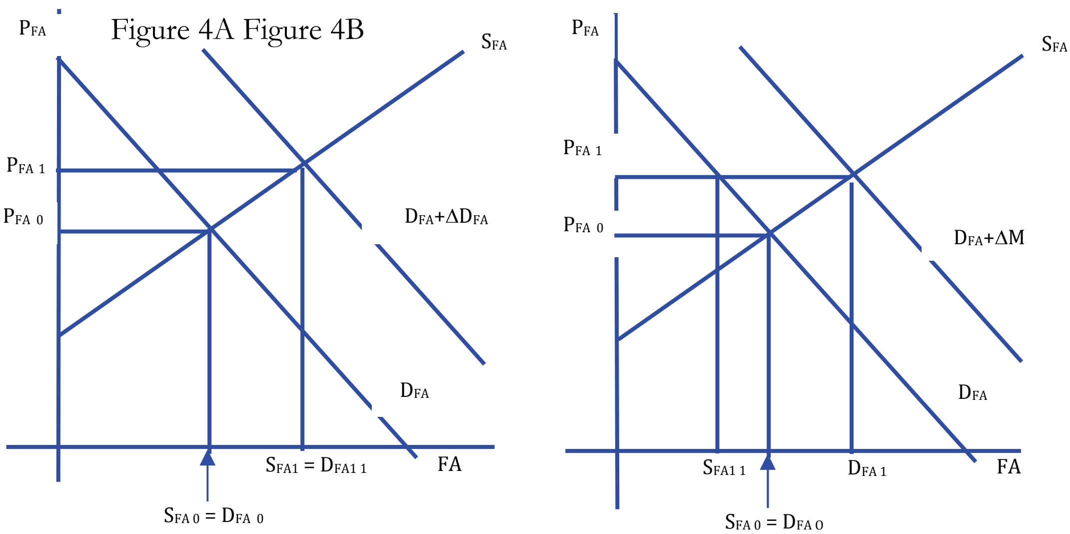


Figure 4A Figure 4B



Appendix 2: Tables

In table 1 only line 1 does not display malinvestment. Line 2 displays malinvestment with neither over- nor underinvestment, where investment is measured in terms of resources used therefor. Lines 3 and 4 show overinvestment with different degrees of malinvestment and lines 5 and 6 show underinvestment with different degree of malinvestment.

Table 1

Set of Resources used		Capital goods or capital goods & consumers' durable goods produced				
1	x	A	B	C	D	
2	x	A	B	C	E	
3	y = x + u > x	A	B	C	D	F
4	y = x + u > x	A	B	C	G	H
5	z = x – v < x	A	B	C		
6	z = x- v < x	A	B	J		

In table 2 the loanable funds and financial securities models are compared by actor classes and also by asset types.

Table 2

	Loanable Funds		Financial Securities	
By Actor Classes	Demands	Supplies	Demands	Supplies
Consumers (Households)	excluded	net of Consumers' demands	included	included
Non-bank Financial Intermediaries	?	?	included	included
Other Businesses	included	excluded	included	included
Governments	?	?	included	included
Banks	?	new loans	included	included
Central Bank	?	?	included	included

		Loanable Funds		Financial Securities	
By Asset Types		Demands	Supplies	Demands	Supplies
Debts	New	included	included	included	included
	Pre-existing	excluded	excluded	included	included
Equities	New	included	included	included	included
	Pre-existing	excluded	excluded	included	included
Retained Earnings		included	included	excluded	Excluded
Hoarding		included	included	excluded	Excluded

Appendix 3: Algebra

We retain the assumption that all financial securities are of the nature of consols that once-a-year pay \$1,000 in interest (I); i.e., I = \$1,000/yr, and note that the demands for, and supplies of, loanable funds materialize, respectively, as supplies of, and demands for financial securities. That is:

$QFS_{SB} = QLF_D$, where QFS_{SB} is the total supply by businesses of financial securities;

$QFS_{SH} = QLF_{DH}$, where QFS_{SH} is the total supply by households of financial securities;

$QFS_S = QLF_D$, where QFS_S is the total supply by both sectors of financial securities; and,

$QLF_S = QFS_D$; where QFS_D is the total demand for financial securities.

Because the price in dollars (P) of such a security is equal to the interest divided by the yield per annum (r/yr); i.e., P = I/r. Then in this case P = (\$1,000/yr)/(r/yr) = \$1,000/r; i.e., P = \$1,000/r ⇒ r = \$1,000/P, we can substitute for \$1,000/P for r in the loanable-funds equations to convert them to equations in terms of financial securities; to wit:

Initial Situation:

$QLF_{DB} = (\$2{,}000/yr^2)/(r/yr) \Rightarrow QFS_{SB} = (\$2{,}000/yr^2)/((\$1{,}000/yr)/P) = 2\ P/yr$;

$QLF_{DH} = (\$2{,}000/yr^2)/(r/yr) \Rightarrow QFS_{SH} = (\$2{,}000/yr^2)/((\$1{,}000/yr)/P) = 2\ P/yr$;

$QLF_D = (\$4{,}000/yr^2)/(r/yr) \Rightarrow QFS_S = (\$4{,}000/yr^2)/((\$1{,}000/P)/yr) = 4\ P/yr$; and,

$QLF_S = \$1{,}600{,}000\bullet(r/yr) \Rightarrow QFS_D = \$1{,}600{,}000\bullet((\$1{,}000/P)/yr) = (\$1{,}600{,}000{,}000/P)/yr$.

Subsequent situation:

Let the supply and the demand by businesses' remain the same but households' demands increase, such that:

QLF_{DB} (unchanged) $= (\$2{,}000/yr^2/i \Rightarrow QFS_{SB} = (\$2{,}000/yr^2)/((\$1{,}000/yr)/P) = 2\ P/yr$;

QLF_{DH} (changed) $= (\$3{,}000/yr^2)/(r/yr) \Rightarrow QFS_{SH} = (\$3{,}000/yr^2)/((\$1{,}000/yr)/P) = 3\ P/yr$;

QLF_D (changed) $= (\$5{,}000/yr^2)/(r/yr) \Rightarrow QFS_{SH} = (\$5{,}000/yr^2)/((\$1{,}000/yr)/P) = 5\ P/yr$; and,

QLF_S (unchanged) $= \$1{,}600{,}000\bullet(r/yr) \Rightarrow QFS_D = \$1{,}600{,}000 \bullet((\$1{,}000/P)/yr) = (\$1{,}600{,}000{,}000/P)/yr$.

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CONSIDERATIONS ON TAX EVASION

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Abstract

Tax evasion represents a unilateral act whose purpose is to avoid paying the due sums to the state, such as taxes, by the means of legal or illegal methods, especially in the "underground" economy.

The high number of tax obligations, provided by various laws, imposing a considerable burden to the tax payer, represents an incentive for tax evasion, continuously stimulating the ingenuity of those who are to pay these taxes to evade their payment.

Keywords: taxes, financial obligations, "underground" economy, corruption, tax evasion.

JEL Classification: H26

Since ancient times, the tax payers have always tried to reduce the financial obligations, appealing to the most varied and ingenious methods.

Tax evasion, together with "underground" economy and corruption shows a certain economic condition and economic and social conduct of those who, related to their gains, are obliged to contribute to central and local budgets, by the means of taxes and other contributions due to the state.

Tax evasion can be not only a unilateral act of "sheltering" of a part of the individual gains, by legal or illegal means, being encountered both in "above-the-ground" economy, but especially in "underground" , where currently the tax evasion is widespread[1].

Certain activities such as: drug production and selling, gambling and so on, the so-called "underground economy", represents the unlawful removal of certain economic activities, evading the taxes due to the state, as provided by law.

Therefore, tax evasion is the circumvention of Romanian and foreign, natural and legal persons - by any means – of payment of taxes, contributions and of other amounts due to the state budget and special fund budgets[2].

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[1] I. Văcărel, G. Anghelache, Gh. D. Bistriceanu, T. Moşteanu, F. Bercea, M. Bondar, F. Georgescu – *Public Finances*, Third Edition, revised and completed, Didactică and Pedagogică Publishing House, Bucharest, pp.476-478.

[2] See Law no. 241/2005 on prevention and fight against tax evasion, published in the Official Gazette, Part I, no. 672 of 27 July 2005, modified by Government Emergency Order no. 49/2011, on amendment and completion of Law no. 571/2003 on Fiscal Code and other financial-fiscal provisions, published in the Official Gazette, Part I, no. 381 of 31 May 2011.

The high number of financial obligations, provided by different laws, has stimulated continuously the tax payers' ingenuity in avoiding imposition or payment of taxed financial incomes, by hiding different forms of sources and the amount of the real income,

There are two types of fiscal evasion, namely: legal tax evasion or "under the protection of the law", which enables the partial circumvention of the taxable amount, without being considered offense or crime and fraudulent, illicit, evasion, with the violation of law and punishable as such[3].

Tax evasion is fraudulent when the tax payer who is obliged to supply justificatory data to accompany its statement, decides to hide the taxable object, to undervalue the taxable material or uses other ways of evading the payment of the due tax by: drafting of fake statements; drafting of fictional payments; non-declaration of the taxable material or its incomplete declaration; sales with no invoice or issuance of invoices without effective sale, all these hiding the taxable real operations; making of unreal accountancy registers: making of double evidence registers, of which one real and one fake; fake balance and so on.

Legal tax evasion takes place when a certain part of the income or possession of some persons or social categories are evaded from taxation, as a result of the way the financial legislation rules the taxation or when an income is established according to some criteria that determine taxable rate, lower than the real one.

Since the great reform of direct taxes in 1921 and especially the one in 1923, the Romanian lawmaker has been preoccupied with organization of an effective imposition system, so that people can not evade the payment of the taxes to the state.

As a result of the anti-financial attitude shown by some tax payers and lack of preparation of the law enforcing organs, the minimal imposition was abolished in 1923 and the severe sanction stipulated by 1921 law against evasion practices was mitigated, also as a result of certain aspects of social life which were ignored in 1921.

The 1921 law had the tendency to restrain the application sphere of the direct acknowledgement, using instead the tax payer's statement and replacing fixed and minimal imposition based upon exterior signs and tax payer's income estimation.

In order to increase tax efficiency, the 1929 law did not seek to increase quotas and sought by all means to limit the then tax evasion possibilities.

According to the Law of Direct Contributions of 1923, the financial burden was not spread equally, thus enabling some companies to evade the tax, which remained insignificant. For example, the buildings in the property of industrial companies were not subjected to taxation.

Another example was the inflation of depreciations, which was an exaggeration of the value of the buildings and installations owned by a company, or their number

[3] See: Mircea Boulescu, Marcel Ghiță – *Financial Control*, Efficient Publishing House, Bucharest, 1997, p. 234.

and to require and obtain from fiscal authorities the right to deduct from the benefit a depreciation fund, for investments higher than the real ones.

As a result of the enforcement of in 1923 law, the direct taxes decreased, which led to enactment of special repression measures of tax evasion and modification of imposition methods for tax payer categories who could evade the payment of tax obligations.

This moment was considered as the beginning of anti-evasion fight in Romania.

The 1923 Law of Direct Contributions, concerning the methods against fiscal evasion, classified the infringements of the law from simple offense and qualified offense and punished them with fines which could be as high as four times the tax due for the hidden and acknowledged income. The imprisonment from 6 to 12 months was provided as punishment, and this penalty was also applied to fiscal agents, who intentionally did not establish the rights of the state, as provided by law.

The law enforcement organs had an important role within the relations between fiscal authorities and tax payers, because no matter how good a fiscal measure was, it did not provide the desired efficiency as long as the fiscal authorities were unfair and lacked professional training.

The new reform initiated by the Law of Direct Contributions of 1 April 1941, provided a series of principles such as: simplification of taxes and quotas provided by the old law and generalization of the imposition method for traders and industrialists, depending on turnover[4]. At the same time, sole efficiency coefficients are established, in accordance with the nature of each category of company.

The law aimed to strongly punish all tax evaders who failed to meet their obligations to the state, but giving the opportunity to those who had evaded the payment of taxes, to become legal and liquidate this kind of obligations, even if they had fully or partially avoided in the past to pay their taxes.

After 1990, tax evasion has been approached with a new regulation and there is a closer identification of the tax evasion acts, which fall within the category of contraventions and crimes, but the tax evasion phenomenon has increased a lot.

In market economy, the fiscal authorities are facing a mass scale evasion phenomenon, as a result of the temptation of removing taxable income under the law.

The specialized legal literature is currently analyzing the tax evasion under two aspects: legal tax evasion and fraudulent tax evasion or fiscal fraud, depending upon the tax avoidance methods.

The illicit acts on tax evasion, especially those from economic and financial field, represent a consequence of the legislative imperfections, various legislative changes[5] or lack of regulations during the transition to market economy.

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4 Gh. N. Leon - *Elements of Financial Science*, Second Edition, Cercetări juridice Publishing House, Bucharest, 1942, pp. 278-279.

5 Romanian Tax Code, which regulates taxes and social contributions, has been amended 54 times during 2004 – 2011. Only in 2010, the Tax Code was amended 11 times and four times in October 2010. In the same interval, it was attacked at the Constitutional Court 71 times for constitutional challenges of art of some provisions, of which 18 times in 2008, 14 times in 2009 and 13 times in

The most frequent causes that can generate or favor fiscal evasion are:

- Inadequacies of imperfect, unstable or poorly implemented legislation;
- Poor enforcement of the legislation;
- Excessive taxation[6];
- Increased number of the cases of profiteering, smuggling, financial impropriety etc.[7]

The excessive taxation will make the tax payer not declare all incomes, he will be more cautious in his income statements and will try to hide those incomes which he considers as difficult to be identified by fiscal agents.

As a rule, tax payer tries to evade obligations towards the state, irrespective of the tax amount he is to pay. Cheating of the tax authorities is considered as an ability test, and paying the contributions to the state is considered by some people as naïve.

Favorable interpretation of fiscal legislation, leads to avoidance of taxation, by different means: investing a part of the profit in purchasing machines or technical equipments for which the state grants tax income deductions, whose aim is to encourage accumulation; creation of depreciation or reserve funds in a higher level than those economically justified; favorable interpretation of legal provisions on facilities or exemptions or reductions for tax payers, by supporting social, sportive or other kind of activities which actually do not take place; income localization in countries with low taxation (tax havens) etc.

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2010.

6 SISMONDE said "the tax should never put to run the material it hits. The more fugitive this wealth is, the more moderate, the tax should be".

7 Also see DAN DROSU ŞAGUNA, *Financial and Fiscal Law Treatise*, Eminescu Publishing House, Bucharest, 2000, page. 759

BANKRUPTCY OFFENCES IN THE CONTEXT OF THE ECONOMIC CRISIS AND LEGISLATIVE CHANGES

Ioniță Gheorghe-Iulian*

Abstract

Considering the relation it has with the economic and legal realities it reflects, but also in the context of such realities, mainly the economic crisis and the current and future legislative changes, bankruptcy remains a very modern issue.

By incriminating simple and fraudulent bankruptcy offences, some of the facts or acts committed by the debtor's representatives to fraud the creditors are sanctioned, being in close connection with the creditor's insolvency status.

The express incrimination of such crimes in the new Criminal Code under title II, chapter III, "Offences against patrimony through ignorance of trust" creates the conditions necessary to strengthen the security of legal and economic relations upon which any commercial activity rely, through mutual trust that should exist among traders.

Keywords: offences, simple bankruptcy, fraudulent bankruptcy, insolvency.

JEL Classification: G01, G20, H20, H26, K14, K20, K42

1. Introduction

Contrary to official statements, the financial and economic crisis has not been overcome, and, even if this is not an intrinsic cause of the bankruptcy of economic agents, it significantly influences their number (Tuleaşcă, 2009).

In the same context, the frequent and important changes of the tax and social insurance legislation and policy made in a short interval, encouraged tax payers, including economic agents and their representatives, to find "alternatives" in order to avoid paying their fiscal obligations (Ioniță, 2011), including those considered bankruptcy offences.

Major legislative changes operated or which are to be implemented, namely the entry into force of a new Civil Code and the enforcement of the other three new codes (of civil procedure, criminal and of criminal procedure) represents an additional stress.

Time has brought only the change of means leading to apparent or real bankruptcy and, considering this situation, the lawgiver's role is still to adjust through regulations to the subtle changes that occur in the economic environment (Diaconu, 2005).

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2. Insolvability and insolvency

The two main notions (Tuleaşcă, 2009) used in national legislations, insolvability and insolvency, must not be used interchangeably.

Whereas insolvability means the relationship of assets to liabilities, insolvency represents the impossibility of the trader to cover its commercial debts with the liquidities (cash) it has, regardless of the relation between the assets and liabilities of its patrimony.

Insolvency was deemed an "accident" in the existence of trading companies (Tuleaşcă, 2009).

A legal definition of insolvency is provided in art. 3 point 1 of Law no.85/2006 on the insolvency procedure: "[…] that condition of the debtor's patrimony which is characterized by insufficient funds available to pay for the certain, liquid and due debts […]". According to letter a) of this point insolvency is presumed to be obvious "[…] when the debtor, 90 days after the due date, failed to pay its debt to the creditor; the presumption is relative" and according to letter b), insolvency is imminent "[…] when it is proven that the debtor will not be able to pay on the due date its committed due debts with the funds available on the due date".

Internationally, the specifics of the causes to initiate the collective procedure, which are determined by the law governing this procedure or the analysed historic and legislative moment, cannot indicate significant differences in approaching this essential issue of the enforcement of the bankruptcy procedure (Tuleaşcă, 2009).

However, transborder insolvency raises many and complex problems which are caused by legislative differences (of substantial and procedure law), jurisdiction and law conflicts (on the state where the debtor's insolvency has to be pronounced), conditions for the initiation of the procedure, the governing law, its international effects etc. (Tuleaşcă, 2011).

3. The concept of bankruptcy

Etymologically, bankruptcy comes (depending on the source) from the terms "bancarotta" (in Italian), "banqueroute" (in French), "bankrott" (in German). This term may have originated in medieval Italian law and refers to the situation of the trader who ceased to make payments and whose bench, where he usually displays his goods, is symbolically broken in order to show the other traders that the said person is excluded from their community (Diaconu, 2005).

In our opinion, the Dictionary of Modern Romanian (the 1958 edition) captures best the meaning of this term, reaching a consensus with the meaning given by the lawgiver through incrimination as simple and fraudulent bankruptcy. According to the dictionary (even if there was an explanatory note "in capitalist regimes"), bankruptcy was a "Situation of a bankrupt trader, who was at fault for poor administration or fraud to the detriment of its creditors".

4. Bankruptcy incrimination as offence

Most states incriminate in one form or another certain acts and acts of the debtor or of persons related thereto, which result in the insolvency condition.

Thus, we may notice that most European states, incriminate in their criminal codes (not in special laws), under various names, bankruptcy and other dangerous acts related to debtors' insolvency (Boroi, 2008).

Among the law European systems that incriminate bankruptcy (Diaconu, 2005) in their criminal codes there are Germany, Finland, Sweden, Spain, Luxembourg, and from among those that incriminate it in normative acts (other than the Criminal Code), there are Italy (Legge fallimentare) and Great Britain (Insolvency Act 1986).

As regards Romania, for the moment it belongs to the category of European countries that incriminate bankruptcy in a special law, namely Law no. 85/2006. As we mentioned above, such offences are incriminated in the new Criminal Code as well, whose enforcement is foreseen for next year.

4.1. Incrimination in the Romanian Commercial Code

The Romanian commercial code incriminated the simple and fraudulent bankruptcy offences in a distinct title, VIII "On criminal offences with respect to bankruptcy", in chapter I "On bankruptcy".

Thus, according to art. 879, the trader was guilty of simple bankruptcy "[…] if, prior to declaring being bankrupt and only to facilitate being granted a moratorium, awarded to itself, against truth, part of the assets or simulated inexistent debts in order to encourage partially or wholly fictitious creditors to appear in meetings".

According to art. 880, the trader was guilty of fraudulent bankruptcy "[…] if he stole or forged its registers, distracted, hid or dissimulated part of its assets and/or the trader who, for another reason than as indicated in the previous article, presented inexistent debts or who, in its ledgers, written documents or authentic or private acts or in the balance, indicated fraudulently debts that it did not have […]". "Fraudulent bankrupt companies" could also be those "[…] traders who, prior to declaring being bankrupt, estranged part of the goods or assets at smaller prices than their cost, for the fraudulent purpose of frustrating their creditors".

4.2. Incrimination in the Law on trading companies

Law no. 31/1990 on trading companies incriminates only fraudulent bankruptcy as offence.

Thus, according to art. 282, one of the following acts is deemed fraudulent bankruptcy offence:

a) the forgery, theft or destruction of the company ledgers or the hiding of part of the company assets, the presentation of inexistent debts or the presentation in the company ledger, in another document or in the financial statement, of undue amounts, each of them being performed for the purpose of apparently diminishing the value of the assets;

b) estrangement of a significant part of its assets, to the creditors' detriment, in case of company bankruptcy;

were punished with imprisonment from 3 to 12 years.

4.3. Incrimination in the Law on the insolvency procedure

Article 143 of the current Law no. 85/2006 on the insolvency procedure incriminates both simple and fraudulent bankruptcy.

The simple bankruptcy offence, according to paragraph 1) of this article, consists in failure to submit or late submittal by the debtor natural person or the legal representative of the debtor legal entity, of the application for the opening of the procedure, within a term which exceeds by more than 6 months the term stipulated at art. 27 and is punished with imprisonment from 3 months to one year or with a fine

Art. 27, paragraph (1) creates a term of maximum 30 days as of the occurrence of the insolvency condition, when the debtor (who is in this condition) has to submit to the court an application to be subjected to the insolvency procedure.

In paragraph (1^1) of this article, if on the expiry date of the above-mentioned term, the debtor is involved, in good faith, in extrajudicial negotiations for the restructuration of its debts, the term is 5 days beginning on the failure of such negotiations.

The fraudulent bankruptcy offence, according to paragraph (2) of this article, is sanctioned with imprisonment from 6 months to 5 years and consists in the act of the person who:

a) forges, steals or destroys the debtor's ledgers or hides part of its assets;

b) presents inexistent debts or presents in the debtor's ledgers, in another document or in the financial statement, undue amounts, each of such acts being performed to the creditors' detriment;

c) estranges part of the assets, to the creditors' detriment, in case of the debtor's insolvency.

4.4. Incrimination in the new Criminal Code

In the new Criminal Code, the crimes of simple or fraudulent bankruptcy are incriminated in art. 240 and 241, title II, "Offences against patrimony" of chapter III, "Offences against patrimony through ignorance of trust".

According to art. 240 paragraph (1), the simple bankruptcy offence consists of failure to submit or late submittal by the debtor natural person or the legal representative of the legal entity, of the application for the opening of the insolvency procedure, within a term exceeding by more than 6 months the term stipulated by the law related to the occurrence of the insolvency condition, and is punished with imprisonment from 3 months to one year or with a fine.

According to art. 241 paragraph (1), the fraudulent bankruptcy offence consists of the act of the person who, to the creditors' detriment:

a) forges, steals or destroys the debtor's ledgers or hides part of its assets;

b) presents inexistent debts or presents in the debtor's ledgers, in another document or in the financial statement, undue amounts, each of such acts being performed to the creditors' detriment;

c) estranges part of the assets, to the creditors' detriment, in case of the debtor's insolvency.

and is punished with imprisonment from 6 months to 5 years.

5. Instead of conclusions, issues taken from the registered casuistry

5.1. Through criminal decision no. 527 of October 9, 2001, the Court of Iasi sentenced A.C., among others, to 5 years of prison for the fraudulent bankruptcy offence as stipulated at art.276 letter b) of Law no. 31/1990 republished.

The evidence revealed that, after April 21, 1999, following the application formulated by SC M. MUREŞ SA, the procedure for the bankruptcy of SC G. IMPEX SRL was initiated, the defendant A.C. estranged the company patrimony to the detriment of its creditors. Thus, on May 7, 1999, the syndic signed a report whereby he informed A.C. that the bankruptcy procedure was initiated, a report which was signed by the defendant. Administrator P.T. tried several times to contact the defendant, but he had left the commercial space held on 20 Poitiers Bvd., estranged the goods, and subsequently, on September 17, 1999, he assigned the share parts of SC G. IMPEX SRL to the defendant V.V.

It was considered that this offence involves the estrangement to the creditors' detriment, in case of bankruptcy, of a significant part of the assets and this unquestionably results from the acts and works of the file, namely from the syndic's report of April 21, 1999, which initiated the bankruptcy procedure and the reports signed by administrator P.T. that the defendant A.C., well aware of the facts, proceeded to the estrangement of company SC G. IMPEX SRL, although he knew about the bankruptcy procedure and expressed his availability to fully pay the amount due to SC M. MUREŞ SA, by June 1, 1999.

An appeal was declared against the above-mentioned decision, appeal which was rejected through criminal decision no. 146 of May 16, 2002 of the Court of Appeal of Iasi.

The appeal of the defendant against this decision was also rejected as ungrounded, under decision no. 72 of January 9, 2003 of the Supreme Court of Justice, Criminal Section.

5.2. Criminal sentence no. 87 of January 29, 2004 given by the Court of Iasi in file no. 11.878/2002, sentenced the defendant B.I., among others, to 4 years of prison for the offence stipulated at art. 276 of Law no. 31/1990, with the application of art. 37 letter a) of the Criminal Code.

The evidence revealed that the defendant B.I., citizen of the Republic of Moldova, obtained in 1999 the Romanian citizenship; then, in November 1999, he set up a trading company, S. SRL, where he was sole associate and administrator. The same month, he changed the company name into SC A.I., and on January 17, 2001, he became the administrator of SC M.A. SRL Iaşi, whose name he also changed into SC A.I.T. SRL Iaşi. At the end of the year 2000 and in August 2001, the defendant gave the witness A.I. the amount of 19,000 German pounds, namely 13,000 German pounds, in order to buy 2 cars, an Audi 100 TDI and a WV PASSAT, both initially registered under the witness's name and then on the name of SC A.I. Iaşi. Wishing to obtain a fraudulent profit from these transactions, on November 4, 2001, the defendant drafted a false invoice which certified that SC A.I.T. bought the two cars from SC S. SRL, although this latter one had stopped operating in November 1999 and wrote down the purchasing price of ROL 1,147,000,000, although he procurement value had been ROL 500,000,000.

It was considered that by drafting on November 4, 2001, a fiscal invoice and then 4 money orders, which indicate a situation incompliant with reality, in the meaning that SC A.I.T. owed the amount of ROL 1,147,000,000 to SC S. SRL, the defendant B.I. was found guilty of the fraudulent bankruptcy offence as stipulated at art. 276 letter a) of Law no. 31/1990, republished, considering that the objective aspect of this offence consists of the presentation of those inexistent debts in order to diminish the patrimony of the company.

Criminal decision no. 217 of June 15, 2004 of the Court of Appeal of Iasi (file no. 1811/2004) accepted the appeal promoted by the Parquet near the Court of Iasi against the decision no. 87 of January 19, 204, which it partly destroyed, with completion with "paragraph (1) and letter a)" of the legal classification stipulated by the provisions of art. 276 of Law no. 31/1990 and that stipulated by the provisions of art. 23 of Law no. 21/1991.

Decision no. 6042 of November 16, 2004 of the High Court of Cassation and Justice, the criminal section, accepted the appeal of the defendant, and the criminal decision no. 217 of June 15, 2004 of the Court of Appeal of Iasi was cancelled, the court deciding on the reconsideration of the matter by the same court, with the legal summoning of the defendant, who had not been summoned, at the new address, on which he had informed the court.

Thus, the cause was reregistered with the Court of Appeal of Iasi under no. 6856/2004, and criminal decision no. 224 of June 7, 2005 of the Court of Appeal of Iasi accepted the appeals formulated by the Parquet near the Court of Iasi and the defendant B.I., against criminal sentence no. 87 of January 29, 2004 of the Court of Iasi (file no. 11.878/2002) which it partly destroyed, with respect to the legal classification of the acts and the punishment.

The retrial divided the punishments applied to the defendant B.I. and set their individuality.

According to the provisions of art. 334, the Code of criminal procedure changed the legal classification, among others, of the fraudulent bankruptcy offence from art. 276 of Law no. 31/1990 with the application of art. 37 letter a) of the Criminal Code, into art. 276 letter a) of Law no. 31/1990, with the application of the provisions of art. 37 letter a) of the Criminal Code and sentenced the defendant B.I. to 3 years of prison.

The defendant appealed against this decision, but the appeal was rejected as ungrounded through decision no. 1501 of March 8, 2006 of the High Court of Cassation and Justice, Criminal Section.

5.3. Criminal decision no. 146 given by the Court of Bistrița Năsăud in file no. 1712/112/2007, under art. 334 Code of criminal procedure, decided, among others, on the change of the legal classification of the acts for which the defendant M.O. was sent to trial, from the simple bankruptcy offence as stipulated at art. 143 paragraph (1) of Law no. 85/2006, with the application of art. 41 paragraph (2) of the Criminal Code, and the simple bankruptcy offence as stipulated at art. 143 of Law no. 85/2006, into a single simple bankruptcy offence as stipulated at art. 143 paragraph (1) of Law no. 85/2006, and the defendant was sentenced to 2 months of prison for this offence.

The evidence revealed that in the period 2004-2006, SC M.O.A. SRL Bistrița represented by the defendant closed several sale-purchase agreements for cars, under which it cashed various amounts without fulfilling the obligations indicated in these documents. Following the poor administration, SC M.O.A. SRL Bistrița became insolvent in the meaning that it no longer had the funds necessary to procure cars or to cover its debts to various creditors. It became evident that the defendant was aware of the insolvency condition of his company prior to signing the sale-purchase agreements with the damaged parties B.A.F. and P.L., an aspect which was proven both through the debts registered by his company to various natural persons and legal entities and through the debts registered to the State Budget. However, the defendant meant to cash and obtain for himself various amounts, knowing that he will not make available to the buyers the ordered cars and that he will not refund them the cashed amounts. For these reasons, the court considered that the elements that make the simple bankruptcy offence are cumulatively met, proving a direct intention, because the defendant was aware of the company insolvency condition and meant to produce the result by failure to submit or late submittal of the application for the insolvency procedure within the term stipulated by the law.

The court considered that the insolvency condition, the initiation of the procedure of legal reorganization and bankruptcy, the suspension of the administration right and the appointment of a legal administrator, in this particular case, SC C.M.U. SRL Unirea, can only be set once and bear effects to all creditors and debtors of the company which are notified under the terms of art. 75 of the law.

Once the court notes the insolvency condition of a company upon the request of a creditor, the decision being final, the pronouncement of similar decisions upon the request of other creditors is no longer justified. In this situation, upon the request of creditors B.N., civil decision no. 400 of April 28, 2006 of the Court of Bistriţa Năsăud, commercial and administrative section, noted the insolvency condition of SC M.O.A. SRL Bistriţa, and subsequently, the civil decision no. 879/COM/2006 imposed the opening of the simplified insolvency procedure.

It was considered that the defendant's failure to submit, as legal representative of SC M.O.A. SRL Bistriţa, with the Court of Bistriţa Năsăud, commercial section, the application for the opening of the insolvency procedure within 30 days as of the occurrence of the insolvency condition, triggers his liability for the simple bankruptcy offence as stipulated by art. 143 paragraph (1) of Law no. 85/2006, a act which, for the above-mentioned reasons, is not susceptible of being committed in a continued form. Therefore, the court considered that, although against the defendant there were three criminal complaints for the simple bankruptcy offence (those of the damaged parties B.A.F. f. 19-23 and P.L. f. 31-35 of File no. 3099/112/2007), and the complaint submitted by the legal administrator f. 158 vol. I File of criminal incrimination no. 1712/112/2007, this situation does not entail retaining the act under continued form, considering the nature of this offence, according to which the insolvency condition once noted bears effects continuously, and cannot be interrupted through successive requests of other interested creditors.

The criminal decision no. 49/A of April 14, 2010 given by the Court of Appeal Cluj, criminal section, accepted the appeal declared by the defendant M.O. against the above-mentioned criminal decision, which it destroyed from the civil aspect of the cause referring to the civil parties A.M., B.I.L., but the remaining provisions of the decision were maintained.

The defendant declared an appeal against this decision, but the appeal was rejected as ungrounded through decision no. 3854 of November 1, 2010 of the High Court of Cassation and Justice, Criminal Section.

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ANALYSIS OF EUROPEAN UNION COMPETITIVENESS FROM A NEW MULTIDIMENSIONAL MODEL PERSPECTIVE

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Diana Marieta Mihaiu*

Abstract

The central objective of this study is to analyze the competitiveness of European Union through the prism of its influence factors: public debt, budget deficit, competitiveness of national economies, credit default swap. Based on these factors were obtained three regression functions for EU competitiveness. The results of the analysis reveal that the EU competitiveness is influenced by two main factors: sovereign risk and competitiveness of national economies. In the current economic situation, sovereign risk rate of 48.52% influences on EU competitiveness, and competitiveness of national economies at a rate of 33.63%. Among the three risk variables underlying the sovereign risk, public debt ratio is most important, thus showing that any sovereign debt crisis would adversely affect the competitiveness of the European Union, followed by the value of the CDS and by the budgetary equilibrium. The second factor, the competitiveness of national economies is mainly determined by the global competitiveness index.The model proposed in this study identifies the factors underlying the central objective of the Lisbon Strategy, namely to make the EU the most competitive and dynamic economy in the world.

Keywords: competitiveness, public debt, budget deficit, credit default swap

JEL Classification: H12, H63, E60

1. Introduction

This paper aims to study the competitiveness of the European Union, on the premise that EU competitiveness is a basic pillar of the Lisbon Strategy. In the first stage will identify factors that influence competitiveness, especially in times of recession. Based on these factors, and on the relationship between them, EU competitiveness regression functions will be developed. Finally a factorial analysis we will be developed in order to identify the main influence factor on the competitiveness of the European community.

The first part of the study consists of a literature review on competitiveness, a multilevel approach to competitiveness: the microeconomic level, the macroeconomic and mondoeconomic level.

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The second part of the study includes data analysis, starting from the analysis of the correlations between the four indicators (part 3.1), the development of the EU competitiveness functions (part 3.2 and 3.3), and finally achieving the factorial analysis of the European community competitiveness (part 4.1).

2. Literature Review

Competitiveness is a key objective of any economic organization, but also of any state, being a widely discussed topic both on the microeconomic and macroeconomic level, but also on mondoeconomic level. But despite the attention given to this concept there is no uniform definition of it, and not all its influence factors are known. There are studies that try to capture as wide as possible the phenomenon, but every time there remains room for new influence factors. This just shows the dimensions of competitiveness, its interconnectivity, extended and deep roots, and its continuous dynamics. People change, people evolve, markets are interconnected, so companies and states will have to face new challenges and will have to find new sources of competitiveness.

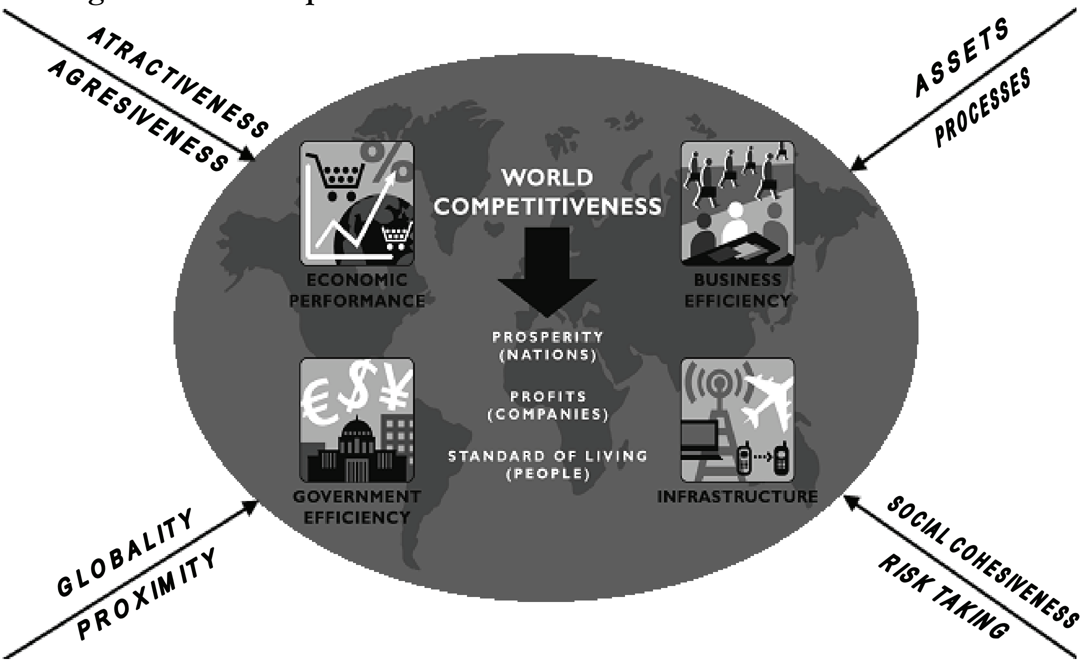
A well known word for competitiveness is "elusive". The word was first use by ***Krugman*** in 1994: "*The bottom line for corporation is literally its bottom line: if a corporation cannot afford to pay its workers, suppliers and bondholders it will go out of business. Countries have no well define bottom line. As a result, the concept of national competitiveness is elusive* [Marginean, (2006), pag.29]".

Michael Porter explains national competitiveness as a result of microeconomic competitiveness: "*competitiveness is rooted in a nation's microeconomic fundamentals, manifested in the sophistication of its companies and the quality of its microeconomic business environment*[Ogrean C., (2010), pag.60]", and had elaborated, in order to sustain his theory, the Competitiveness Diamond.

National competitiveness is defined by ***World Economic Forum*** as **"***the set of institutions, policies, and factors that determine the level of productivity of a country* [WEF, (2011), pag.4]".

Stéphane Garelli, from the Institute for Management Development, defines the national competitiveness as *"a field of economic theory which analyses the facts and policies that shape the ability of a nation to create and maintain an environment that sustains more value creation for its enterprises and more prosperity for its people".* S. Garelli had elaborated The Competitiveness Cube – *"the Cube theory defines four competitiveness forces: aggressiveness vs. attractiveness, assets vs. processes, globality vs. proximity, and social responsibility vs. risk taking. The frontal face of the cube describes how competitiveness is generated within one given year. The depth of the cube introduces the time dimension and illustrates competitiveness accumulated over time, and thus the wealth of a nation* [Garelli S., (2011), pag 495*]"*.

Figure 1 The Competitiveness Cube



Source: Stéphane Garelli - IMD WORLD COMPETITIVENESS YEARBOOK 2011, pag.495.

The same author, S. Garelli offers *The Golden Rules of Competitiveness*, mentioned in the following figure [Garelli S., (2011), pag. 499]:

Figure 2: Stephane Garelli ***Golden Rules of Competitiveness***

- Create a stable and predictable legislative and administrative environment.
- Ensure speed, transparency and accountability in the administration, as well as the ease of doing business.
- Invest continually in developing and maintaining infrastructure both economic (road, air, telecom, etc.) and social (health, education, pension, etc.).
- Strengthen the middle class: a key source of prosperity and long-term stability.
- Develop privately-owned medium-sized enterprises: a key element of diversity in an economy.
- Maintain a balanced relationship between wage levels, productivity and taxation.
- Develop a local market by promoting private savings and domestic investments
- Balance aggressiveness on international markets with attractiveness for added-value activities.
- Counterweight the advantages of globalization with the imperatives of proximity to preserve social cohesion and value systems.
- Always return the tangible signs of successful competitiveness to the people by providing a higher level of prosperity for all.

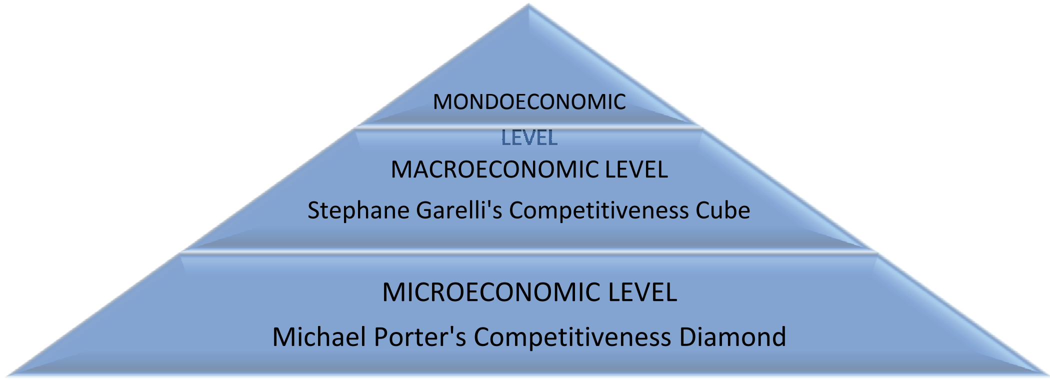
Source: Stéphane Garelli - *IMD WORLD COMPETITIVENESS YEARBOOK 2011*, pag.499.

But competitiveness is also a goal for the whole European Union, an objective stated in the Lisbon Strategy in 2000 and still kept for the next period. In the European Competitiveness Report 2010 are analyzed four factors considered to be of significant importance for the European competitiveness, namely(European Commission, 2010):

- the changing pattern of trade in intermediate products and EU manufacturing supply chains;
- foreign corporate R & D and innovation activities in the EU;
- European competitiveness in key enabling technologies;
- innovation and competitiveness of the creative industries in the EU.

In conclusion, competitiveness is a complex objective, and its analysis can be done on several levels, according to figure below.

Figure 3: Competitiveness analysis



3. Methodology and Empirical Study

In this section is analyzed, based on empirical data, the competitiveness of European Union Member States in the context of an increased risk of sovereign debt crisis with negative effects on economic stability of Europe, aiming to obtain a multidimensional model to analyze the existing situation and to propose appropriate measures to achieve the central objective of the Lisbon Strategy, namely to make EU the most competitive and dynamic economy in the world. In order to obtain the model, we started analysing four indicators of Member States of the EU: the Competitiveness Index, the public debt to GDP, budget equilibrium (expressed by the budget deficit) and the CDS (credit default swap). Thus, the indebtedness and budget equilibrium (that BD – budget deficit) are expressed through the percentage of public debt in GDP, with Eurostat as the data source, the competitiveness level of countries covered by this study is given by the Competitiveness Index calculated annually by the World Economic Forum and the CDS (Credit Default Swap) is expressed in basis point (bps), with Bloomberg as the data source.

3.1 Correlations Analysis

By processing the data using SPSS software, the following situation was obtained and presented in Table 1 regarding the correlation between the two indicators, calculated using the Pearson correlation coefficient.

Table 1:Pearson Correlation

		pd2010	gci2010	cds2010	bd2010
pd2010	Pearson Correlation	1	-0.030	0.683**	-0.426*
	Sig. (2-tailed)		0.881	0.000	0.027
	N	27	27	24	27
gci2010	Pearson Correlation	-0.030	1	-0.583**	0.204
	Sig. (2-tailed)	0.881		0.003	0.306
	N	27	27	24	27
cds2010	Pearson Correlation	0.683**	-0.583**	1	-0.505*
	Sig. (2-tailed)	0.000	0.003		0.012
	N	24	24	24	24
bd2010	Pearson Correlation	-0.426*	0.204	-0.505*	1
	Sig. (2-tailed)	0.027	0.306	0.012	
	N	27	27	24	27

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

Source:*Authors' own computations*

3.2 The Identification of the Model

The correlation analysis using Pearson index, reveal that CDS (credit default swap) is correlated with the other three indicators analyzed (PD, GCI- global competitiveness index, BD) and PD (public debt) is correlated with BD (budgetary equilibriumt). Following the results obtained by using the regression function, it will be analysed the link between the four indicators.

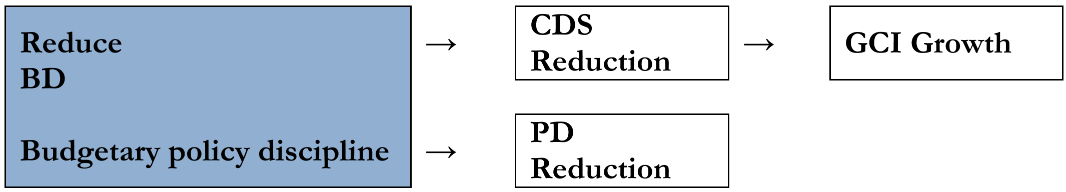
Thus, based on the results of partial correlations, we obtain the following model on the situation at EU level.

(1) $PD = f(BD) = PD_0 + pd_{bd} \times B$
(2) $\ln(CDS) = f(PD) = cds_{pd} \times PD + \ln(CDS_{pd0})$
(3) $\ln(CDS) = f(BD) = cds_{bd} \times BD + \ln(CDS_{bd0})$
(4) $GCI = f(CDS) = GCI_0 + gci_{cds} \times \ln(CDS)$

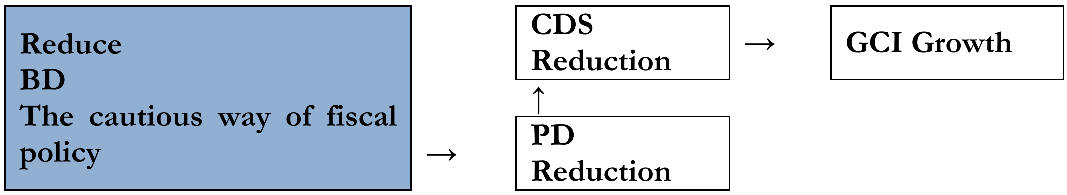
From here, we have three equations that underpin EU competitiveness:
(5) $GCI\ (BD) = gci_{cds} \times cds_{bd} \times BD + gci_{cds} \times \ln(CDS_{bd0}) + GCI_0$
(6) $GCI\ (BD) = gci_{cds} \times cds_{pd} \times pd_{bd} \times BD + gci_{cds} \times cds_{pd} \times PD_0 + gci_{cds} \times \ln(CDS_{pd0}) + GCI_0$
(7) $GCI\ (PD) = gci_{cds} \times cds_{pd} \times PD + gci_{cds} \times \ln(CDS_{pd0}) + GCI_0$

From these equations we can extract three mechanisms of transmission of fiscal and budgetary policy impulses .

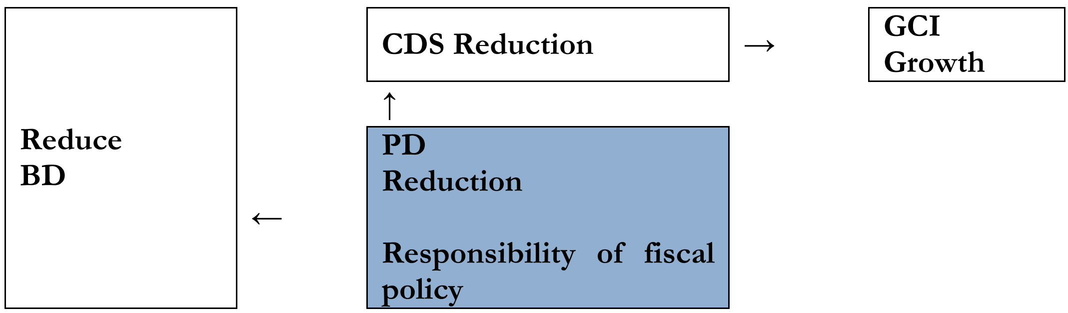
The first mechanism is to reduce the budget deficit (balancing the budget).



The second mechanism is to reduce the budget deficit (balancing the budget).



The third mechanism aimed at boosting economic competitiveness by reducing public debt.



To identify the best situations, the model proposes to use three main tools of analysis, showing the mechanism that should be used:

(8) $gci_{bd} = gci_{cds} \times cds_{bd}$

(9) $gci_{bd} = gci_{cds} \times cds_{pd} \times pd_{bd}$

(10) $gci_{pd} = gci_{cds} \times cds_{pd}$

where gci_{bd} – GCI sensitivity to PD change and gci_{bd} – GCI sensitivity to budgetary deficit.

3.3 Achieving of the Model Equations

In the first stage, based on significant correlation between PD and BD, we obtain the following regression equation for PD (public debt).

(1) $PD = f(BD) = PD_0 + pd_{bd} \times BD$

where PD – public debt (% in GDP), BD – budgetary deficit/ balance (% in PIB), PD_0 – autonomous public debt, pb_{bd} – public debt sensitivity to budgetary deficit/balance change.

Table 2: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.426[a]	0.181	0.149	29.3413

a. Predictors: (Constant), bd2010

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4766.490	1	4766.490	5.537	0.027[a]
	Residual	21522.770	25	860.911		
	Total	26289.260	26			

a. Predictors: (Constant), bd2010
b. Dependent Variable: pd2010

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	46.511	8.460		5.498	0.000
	bd2010	-2.338	0.993	-0.426	-2.353	0.027

a. Dependent Variable: pd2010
Source: *Authors' own computation*

After processing the empirical data, the next regression for the public debt function was established:

(10) $PD(BD) = -2.338 \times BD + 46.511$

The analysis of the model shows that public debt is in an inverce proportion relationship with budgetary balance, respectively in direct proportion relationship with budgetary deficit. Applying the F test and t-statistical test, can be seen that the model is valid for a higher probability of 95% and the coefficients obtained are significantly more likely for 95%.

In the second stage, based on significant correlation between CDS and PD (Pearson Correlation coefficient = 0.683), we obtain the following regression equation for the CDS.

(2) $CDS = f(PD) = CDS_0 \times e^{cds \times PD}$, respectively the linear equation $\ln(CDS) = cds_{pd} \times PD + \ln(CDS_{pd0})$

where CDS – credit default swap, PD – public debt (% in GDP), CDS_{pd0} – autonomous CDS, cds_{pd} – ln(CDS) sensitivity to public debt change.

Table 3: Model Summary

R	R Square	Adjusted R Square	Std. Error of the Estimate
.523	0.273	0.240	0.870

The independent variable is pd2010.

ANOVA

	Sum of Squares	df	Mean Square	F	Sig.
Regression	6.259	1	6.259	8.272	0.009
Residual	16.645	22	0.757		
Total	22.903	23			

The independent variable is pd2010.

Coefficients

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
pd2010	0.016	0.006	.523	2.876	0.009
(Constant)	55.121	21.655		2.545	0.018

The dependent variable is ln(cds2010).

Source: *Authors' own computation*

After processing the empirical data, the next regression for the CDS function was established:

(11) $\ln(CDS) = 0.016 \times PD + 55.121$, respectiv $CDS(PD) = 4.009 \times e^{0.016xPD}$

The analysis of the model shows that CDS is in a direct proportion relationship with public debt. Applying the F test and t-statistical test, can be seen that the model is valid for a higher probability of 95% and the coefficients obtained are significantly more likely for 95%.

In the third stage, based on significant correlation between CDS and BD (Pearson Correlation coefficient = 0.505), we obtain the following regression equation for CDS.

(3) $CDS = f(BD) = CDS_0 \times e^{cds \times BD}$, respectively the linear equation $\ln(CDS) = cds_{bd} \times BD + \ln(CDS_0)$

where CDS – credit default swap, BD – budgetary deficit/ balance (% in PIB), CDS_0 – autonomous CDS, cds_{bd} – ln(CDS) sensitivity to budgetary deficit/balance change.

Table 4: Model Summary

R	R Square	Adjusted R Square	Std. Error of the Estimate
0.515	0.265	0.232	0.875

The independent variable is bd2010.

ANOVA

	Sum of Squares	df	Mean Square	F	Sig.
Regression	6.068	1	6.068	7.930	0.010
Residual	16.835	22	0.765		
Total	22.903	23			

The independent variable is bd2010.

Coefficients

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
bd2010	-0.085	0.030	-.515	-2.816	0.010
(Constant)	85.130	23.054		3.693	0.001

The dependent variable is ln(cds2010).

Source: *Authors' own computation*

After processing the empirical data, the next regression for the CDS function was established:

(12) $\ln(CDS) = -0.085 \times BD + 85.130$, respectiv $CDS(BD) = 4.444 \times e^{-0.085xBD}$

The analysis of the model shows that CDS are in an inverce proportion relationship with budgetary balance, respectively in direct proportion relationship with budgetary deficit. Applying the F test and t-statistical test it can be seen that the model is valid for a higher probability of 95% and the coefficients obtained are significantly more likely for 95%.

In the fourth stage, based on significant correlations between the GCI and CDS (Pearson Correlation coefficient = -0.583), we obtain the following regression equation for the GCI.

(4) $GCI = f(CDS) = GCI_0 + gci_{cds} \times \ln(CDS)$

where GCI – global competitiveness index, CDS – credit default swap, GCI_0 – autonomous GCI, gci_{cds} – global competitiveness sensitivity to ln(CDS) change.

Table 5: Model Summary

R	R Square	Adjusted R Square	Std. Error of the Estimate
0.739	0.547	0.526	0.336

The independent variable is cds2010.

ANOVA

	Sum of Squares	df	Mean Square	F	Sig.
Regression	3.003	1	3.003	26.533	0.000
Residual	2.490	22	0.113		
Total	5.493	23			

The independent variable is cds2010.

Coefficients

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
ln(cds2010)	-0.362	0.070	-.739	-5.151	0.000
(Constant)	6.524	0.359		18.156	0.000

Source: *Authors' own computation*

After processing the empirical data, the next regression for the GCI function was established:

(13) $GCI(CDS) = -0.362*\ln(cds) + 6.524$

The analysis of the model shows that GCI are in an inverse proportion relationship with CDS. Applying the F test and t-statistical test it can be seen that the model is valid for a higher probability of 95% and the coefficients obtained are significantly more likely for 95%.

Finally, based on the empirical analysis, these equations of the model were obtained:

(10) PD(BD) = (-2.338) x BD + (46.511)
(11) ln(CDS) = (0.016) x PD + (55.121), respectiv CDS(PD) = (4.009) x $e^{(0.016)xPD}$
(12) ln(CDS) = (-0.085) x BD + (85.130), respectiv CDS(BD) = (4.444) x $e^{(-0.085)xBD}$
(13) GCI(CDS) = (-0.362) x ln(cds) + (6.524)

By solving the model, it results the following three equations for the competitiveness of the European Union.

(14) GCI(BD) = (-0.362) x (-0.085) x BD + 6.524 + (-0.362) x 85.130
(15) GCI(BD) = (-0.362) x (0.016) x (-2.338) x BD + (-0.362) x (0.016) x (46.511) + (-0.362) x (55.121) + 6.524
(16) GCI(PD) = (-0.362) x (0.016) x PD + 6.524 + (-0.362) x (55.121)

4. Results and Conclusions

The situation of the European Union in 2010 is presented in the following table (see table 6). An important aspect is revealed by the Standard Deviation values, which expresses the volatility of each variable in part, that the risk associated with each variable separately. As the value of Std. Deviation is even greater, much greater is the risk associated with that variable.

Table 6: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
pd2010	27	6.6	142.80	61.333	31.7982
gci2010	27	3.99	5.56	4.6989	0.47178
cds2010	24	22.43	1010.00	238.0458	240.31749
bd2010	27	-31.3	0.20	-6.341	5.7922
Valid N (listwise)	24				

Source: *Authors' own computation*

In order to do a comparative analysis of indicators associated risk, are calculated for each variable separately the report $\beta = \frac{std.deviation}{mean}$.

The higher value of β away from 0, the more volatility and associated risk are higher.

Table 7: Comparative Analysis of β Ratio

	N	Mean	Std. Deviation	β
pd2010	27	61.333	31.7982	0.52
gci2010	27	4.698	0.4717	0.10
cds2010	24	238.045	240.31749	1.01
bd2010	27	-6.341	5.7922	-0.91
Valid N (listwise)	24			

Source: *Authors' own computation*

Following the calculations performed, we see that CDS (which expresses the confidence of the financial markets) has the highest associated risk, that involves a high volatility of default risk.

Based on data obtained from statistical analysis, data for CDS is introduced in the analysis for the 2008-2011 period, in order to observe the evolution of the European economy after the economic crisis. Regarding the value of CDS in 2011, were used in analysis the data provided by Bloomberg for the day of 11 November 2011. Thus, we obtain the following statistical analysis for CDS's situation:

Table 8: Descriptive Statistics for CDS (2008-2011)

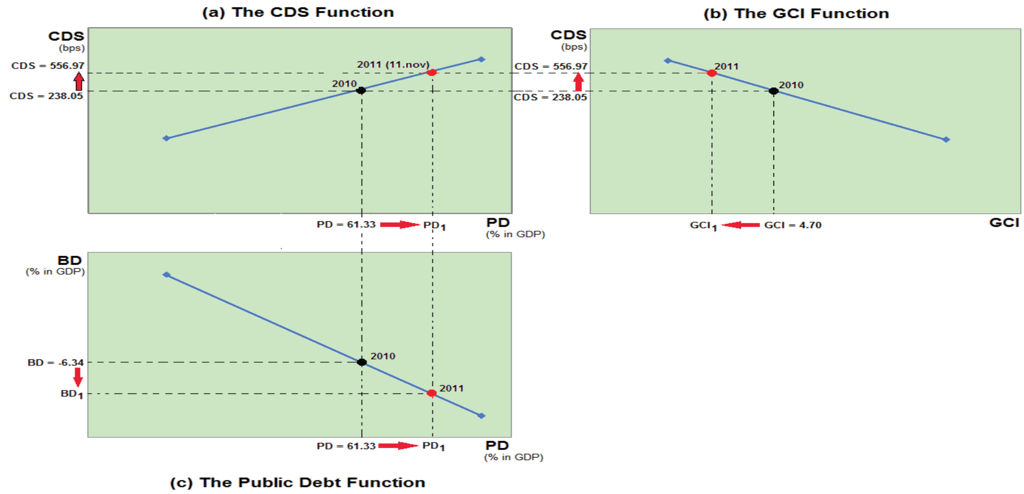
	N	Minimum	Maximum	Mean	Std. Deviation
cds2008	22	45.9	647.0	194.682	169.61
cds2009	24	26.33	307.17	123.617	88.56
cds2010	24	22.43	1,010.00	238.045	240.31
cds2011	24	54.99	5,706.05	556.972	1,126.44
Valid N (listwise)	22				

Source: *Authors' own computation*

Under these circumstances, we see that after the onset of the crisis, the financial markets and investor confidence in the European economy declined, while the risk of default and the sovereign debt crisis in the European Union increased. Note that the year 2011 was marked by a strong increase in default risk, which is evidenced by an increase by 234% of CDS risk premium, respectively by an increase of 318.92 basis points of country risk. Thus, the β indicator shows at the end of 2010, the possibility of worsening of the Europe default risk and the possibility of a decreased confidence in the competitiveness of EU financial markets.

In order to analyze what happened in 2011, the fiscal policy responsibility mechanism will be used, from the model covered by this study.

Figure 4. Analysis of CDS evolution in 2011



Source: *Authors' own computation*

As it can be seen from the chart above, the CDS growth reflects a lower national competitiveness of member countries and the growth of public debt, which has led to budgetary imbalances. In these conditions, the risk of the European economy rises alarming, requiring a coherent economic policy at European level. Therefore, below we will try to identify the mechanism that should be followed for economic recovery and in order to avoid a recession of the comunitary bloc.

Regarding the analysis of the model, an important aspect is the GCI sensitivity coefficient resulted for the three mechanisms:

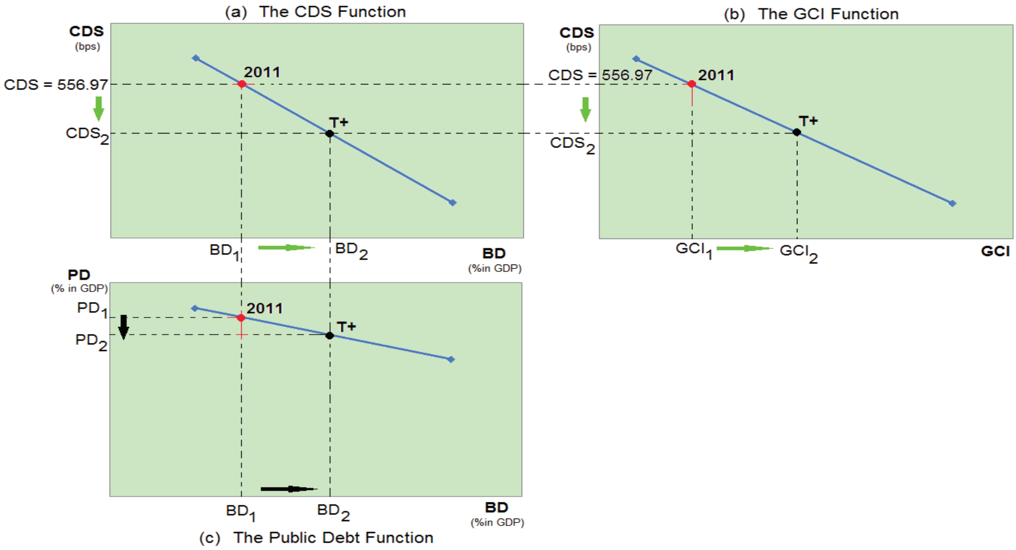
(17) $gci_{bd} = gci_{cds} \times cds_{bd} = (-0.362) \times (-0.085) = 0.031$

(18) $gci_{bd} = gci_{cds} \times cds_{pd} \times pd_{bd} = (-0.362) \times (0.016) \times (-2.338) = 0.014$

(19) $gci_{pd} = gci_{cds} \times cds_{pd} = (-0.362) \times (0.016) = -0.006$

From (17), (18) and (19), we see that GCI has the highest sensitivity to changes in the budget balance (gcibd = 0.031), which determines the choice of disciplined budgetary policy mechanism as a way to achieve the central objective of the Lisbon Strategy, namely to make the EU the most competitive and dynamic economy in the world. Implementation of this mechanism is shown in the graph below.

Figure 5. Analysis of measures proposed by the Model



Source: *Authors' own computation*

As it can be noticed, the impulse should come from a discipline of the budgetary policy, targeting reduction of budgetary imbalances, which would have the primary effect in reducing the default risk and an increase of investor confidence. In this respect, it would boost investments and national competitiveness would increase, while the public debt could be reduced. This mechanism requires the adoption of a coherent policy at EU level, which is based on budgetary discipline of all 27 member countries.

4.1 Factor Analysis of the EU Competitiveness

Further, the study aims to achieve factorial analysis using the Principal Component Analysis as the extraction method and Varimax with Kaizer normalization as the rotation method.

Regarding the results obtained from factor analysis, they are represented in the following tables:

Table 9: Total Variance Explained

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	2.252	56.303	56.303	2.252	56.303	56.303	1.941	48.521	48.521
2	1.034	25.844	82.147	1.034	25.844	82.147	1.345	33.626	82.147
3	0.623	15.565	97.712						
4	0.092	2.288	100.000						

Source: *Authors' own computation*

Table 10: Rotated Component Matrix

	Component	
	1	2
pd2010	0.921	0.109
gci2010	-0.059	0.987
cds2010	0.767	-0.564
bd2010	-0.707	0.200

Source: *Authors' own computation*

It can be notice that EU competitiveness is influenced by two main factors: sovereign risk and competitiveness of national economies. In the current economic situation, sovereign risk rate of 48.52% influences on EU competitiveness, and competitiveness of national economies at a rate of 33.63%.

(20) $EUC = SR(PD, CDS, BD) + NC(GCI) + \varepsilon$

where EUC – Competitiveness of European Union, SR – Soverein Risk, NC – National Competitiveness of EU Members.

The main influence factor on the competitiveness of the European community, sovereign risk, is largely associated with a negative outlook of increasing public debt, with the confidence of investors and financial markets (expressed by the CDS) and negatively with budgetary equilibrium (expressed by budget deficit). Among the three risk variables underlying the sovereign risk, public debt ratio is most important, thus showing that any sovereign debt crisis would adversely affect the competitiveness of the European Union, followed by the value of the CDS and by the budgetary equilibrium. The second factor, the competitiveness of national economies is mainly determined by the global competitiveness index.

The model proposed in this study identifies the factors underlying the central objective of the Lisbon Strategy, namely to make EU the most competitive and dynamic economy in the world.

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GLOBAL COMMUNICATION TECHNIQUES TO BE APPLIED BY MULTINATIONAL COMPANIES

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Abstract

Global communication is based on a basic principle very clear: in a company, everything communicates. Each expression of communication should be considered as a vital element of enterprise identity and personality. Also, global communication is developed based company's history and heritage, culture and future. Being rooted in each project's ambition, the global communication identifies and integrates the core values that will allow the company to grow and adapt to fast environmental changes.

Keywords: corporative image, global communication, marketing integrated communication, international communication process, promotional mix, direct communication

JEL Classification: F23, M10

1. Corporative image consolidation by means of global communication

By global communication it is generally understood the range of actions that, in essence, would point to the process to conceptualize any organization's communication potential quantum, namely by putting into practice a strategy to construct and capitalize the trade mark image; to enforce the coherence policy, as well as the synergy one of the available means; to manage, with the utmost of efficiency, the assembly of communication techniques.

An extremely clear basic principle is at the starting point of the global communication: inside a company, everything and everybody communicates. Each communication expression shall be considered as a vital element of the organization's identity and personality.

The global communication has appeared as a necessity subsequently to the complexity degree increase of the organization's communicational system; it was triggered by the appearance of the corporative dimension, and also by the diversification of the targeted public. Given this context, the global communication shall be achieved by means of the organization's endeavors should such an organization have a certain communicational capital, while the organization's purpose is to capitalize this capital by means of coherent approaches – both at the commercial level, and at the corporative one, as well, so as to favour the fulfillment

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of the targets that have been set by the organization's marketing plans, and more than that, to help consolidate the respective organization's image.

All the same, all these preoccupations, that are connected to the good operation of the marketing global communication, result in the communicational action integration, actions that can be achieved by means of diverse communication methods and techniques, the coherent approach being the main element of it. This way, a new concept has appeared, namely the concept of **marketing integrated communication** that has in view the development of communicational programs that should include coherent decisions with reference to the use of communication methods and techniques, and this would stand for a major tendency in the marketing evolution.

Henceforth, according to Mr. T.A. Shimp's vision[1], the marketing integrated communication *refers to the development and implementation of diverse persuasive communication programs with the present clients, AND also with potential clients, as well, so that direct influence should be exercised on the targeted public's behavior*. At the same time, the marketing integrated communication implies that all the contact occasions, either generated by the trademark or by the organization, which the present or potential client might have as concerns the product / the service, are likely to represent possible transmission channels of the future messages. At the same time, Mr. T.A. Shimp asserts that, as far as the marketing integrated communication is concerned, there are used all the communication modalities that are considered as relevant for clients, modalities to which these ones could prove their responsiveness.

As a conclusion, we can openly assert that the marketing communication has, as of the present moment, an extremely complex content, both from the point of view of the targeted objective aspect, and of the domain of activities, and, also, from that of the specific methods and techniques.[2]

If reference is made to the business – related communication, depending on its value, this shall cross through several stages till the organization's message has been perceived, **the cognitive stage**, respectively (it consists in providing information on the characteristics of the products, on the product or service use, etc); **the emotional stage** (it has in view the development of an attitude to be in favor of the organization, of its trademarks or of its products); **the behaviorist stage** (conative) – its purpose is to incite to purchasing and to the proper purchasing.

The selection of the communication actions to the targets in view shall take into account the above mentioned stages, and, in spite of the fact that the barrier between them is rather vague, it can be considered, first of all, that public relations and publicity have the highest degree of adaptability as concerns the information range and the development of favorable attitudes, not only towards the organization, but

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[1] Shimp T. A., *Advertising, Promotion and Suplimental Aspects of Integrated marketing Comunications*, Fourth Edition, The Dryden Press, Harcourt Brace College Publishers, Fort Worth s.a., 1997, pg. 12

[2] Popescu I. C., *Marketing Communications – strategic approach*, course support "Communication related to Marketing" – Permanent Formation Department, A.S.E., București, 2002, pg. 18

towards its trademarks and products, as well, and, secondly, that sale promotion has an impact especially on the behavior issue while inciting to immediate purchasing.

As concerns the communication process related to the international business world that bears the mark of large geographical distances and of cultural barriers, there undoubtedly appear communication difficulties between the company and the market (consumers, clients, users), difficulties that might perturb the correct transmission and reception of the messages from the international environment due to: language, economic and cultural differences; to the availability of the communication environments; to the legal limitations related to promotion; to the specific characteristics of the local distributors, etc.; henceforth, the companies that are involved in the international marketing are facing a series of strategic decisions that refer to the international communication process that relates to: *local particularities, a certain standardization level, promotion means force and their form, increase of the budgets that are oriented towards the international promotion approach, etc.*

This way, the basic structure and the international communication concepts contain, generally speaking, the following stages: the study of the target market; the setting of the standardization level; the achievement of the promotional mix; the issuing of the most efficient messages; the selection of communication means (media types); the control and monitoring process in view of reaching the objectives.

In view of crossing through these stages, the company shall run a communicational process that shall contain a series of activities of a promotional nature, that make up the company's promotional mix, out of which there should be mentioned: publicity, sale promotion, public relations, personal sale.

Besides such component parts, the international promotional mix shall also contain other promotional activities such as: direct communication, sponsorship of or participation in fairs and exhibitions. Irrespective of the instruments that we consider as component parts of the promotional mix, the development mechanism of the international communication process implies the involvement of the below listed component parts:

Component parts	**Characteristics**
Information source	The international company that intends to send, to the foreign market, a message that refers to its offer
Coding	The message is turned into symbols to be sent to the receiver
Message transmission channel	It is made up of the media types (TV, press, etc.) and / or the sale agents who send the message to the receiving party
De- coding	The interpretation, by the receiving party, of the symbols that have been sent from the source
Receiving party	The targeted public who intends to carry out a series of actions that are related to the message understanding
Feed-back	A series of information sets that refer to the message efficiency, information that comes from the receiving party

	(targeted public) and directs towards the source in view of the process efficiency valuation
Perturbation elements	Unpredictable and uncontrollable influences (competition's answer, consumers' possible confusion state, etc) that are likely to affect one or more of the component parts

Source: L. Anghel, "*Communication policy related to international marketing*", Course notes, 2003, pg. 4

As far as the international communication is concerned, there is the possibility that the message be coded in consistency with a culture, and be de – coded in consistency with another one, thus, creating the grounds for confusion, or, even worse, resulting in a totally different interpretation of the respective message. Given such a context, there appears the problem **of the communication between the adjustment to the local specific characteristics and standardization**.

Irrespective of its destination (be it internal or international), the communication that the company performs shall abide by the below listed conditions should the company choose to consolidate its image on the market, and, even more than that, to achieve the set objectives:

- To be **attractive enough**, so that to be identified and selected from a multitude of communication sources;
- To be **powerful enough**, so that to be able to have an dominant position in its relationship with the targeted public;
- To be **credible**, which means that the messages under circulation be consistent with the consignee's system of values. [3]

2. Particularities of the communicational approach at the global level

Although the communication process pattern is clear, even the transmission of a simple message is likely to cause problems. The bottlenecks that might affect the communication process are due to the issuing party, to the receiving party or even to the channel to be used in view of the respective communication. In his paper called "The Management of Marketing", Mr. Kotler points to three barriers that could hinder the communication process:

- *Selective attention* – the receiving party fails to notice everything that is happening around him since he grants exclusive attention to what he is interested in;
- *Selective perception* – the receiving parties shall de – code the message so that to "hear" only what they wish to "hear";
- *Selective memory* – The receiving parties retain only a small fraction of the message that gets to them.

[3] Balaure V. (coord.), *Marketing,* Uranus Publishing House, Bucharest, 2000, pg. 430

Mr. Kotler agrees to Mr. Schramm's point of view (*Wilbur Schramm, an American researcher who has played an important part in the assertion and acknowledgement of the communication domain as a university discipline*), according to which the receiving party's attention is a function whose variables are: **recompense, constraint and expended effort.** This means that a captivating and easy to understand message implies a higher probability for the receiving party's attention to be captured it.

The multinational companies are facing, and struggling against a serious range of difficulties[4] in their effort to develop global communication program. They have to decide whether the product is adequate to a certain country, to verify whether the market segment that they approach is both legal, and normal, as well. The companies shall decide whether the advertisement style is admissible in all the involved countries, and whether the advertisement shall be carried out at the "headquarters" or locally.

1. **The product** – many products are restricted or forbidden in some parts of the world. Beer, wine and alcoholic drinks cannot be either promoted or traded across Moslem countries. The tobacco products are the subject matter of strict regulations in many countries of the world. Sometimes, a company is compelled to modify its product sale policy. For example, Avon China Inc. has been forced by the Chinese Government to stop direct selling to the Chinese consumers, and to open retail shops. The new promotion campaigns have, thus, positioned the company called Avon as a retail distributor rather than a direct marketer.

2. The market segment – Coca-Cola has business relationships with more than 230 trademarks in more than 200 countries. The company has a portfolio of different advertisements that are consistent with the different national market segments, while the local segment managers decide which ones to use in relationship with each segment taken apart.

The American toy manufacturers have found out, much to their surprise, that, in numerous countries (such as Norway, Sweden, etc) no TV commercial can be addressed to children below the age of 12. There is more to it since Sweden is struggling hard to extend this interdiction to the level of the other EU countries. To avoid any problems, McDonalds develops their own commercials in Sweden as "a restaurant for the entire family".

3. **Style** – the style of the commercial is also important as the comparative commercials, although accepted and usual all over the United States of America and Canada, as well, are (a) less usual in Great Britain, (b) unacceptable in Japan, and (c) illegal in India and Brazil. PepsiCo had, in Japan, an advertisement with a taste comparison test that was refused by several TV stations, and, in the end, it resulted in a real bringing to justice action. China has very strict censorship rules regarding the radio and TV publicity: the expression „*the best*" is forbidden, so are the commercials that „*disregard social habits*" or those commercials that present women „*in an inadequate way*".

[4] Kotler Ph., *The Management of marketing*, Teora Publishing House, Bucharest, 2005, pg. 755

4. **Global or local amplitude** – nowadays, more and more multinational companies are attempting to make a global trademark image by using the same publicity policy all over the markets where they operate and run business. When Daimler AG has merged with Chrysler, to become the 5-th automobile manufacturer in the world as size, the new corporation has applied to a three week publicity campaign in more than 100 countries, and this meant: an insertion as long as 12 pages in dedicated magazines; 9 advertisements – as long as 2 pages – in daily papers; and a 24 page brochure that was sent to the leaders of the economic, government and syndicate sectors, as well as to the media of news. The campaign slogan was: „Expect the unexpected", and in the advertisement images, there appeared people belonging to both companies while they were working together.

3. Global communication techniques at the corporation level

The transmission modalities[5] to which the global communication appeals are practically made up from the *techniques* that have been used to this purpose, out of which a couple are worth mentioning:

3.1. Communication by means of design

The communication by means of the graphic *design* can be carried out by resorting to:

a) *logotype* – it means to render evident a company's identity (as a social reason) or a trademark. The logotype stands for the basis of developing the program (the system) of the visual identity, and it turns out to be the first communication vector for any company. And, should we add to this the fact that, according to which more than five million trademarks that are registered in the world allow the preponderantly visual identification of an equal number of organizations, then, it turns out it is necessary that we should underline the fact that each logotype must – in order to have the chance and opportunity of being correctly perceived – answer to and abide by certain very rigorous elaboration criteria, and by this, we respectively mean: exclusive, in order to avoid confusion with other signs, symbols, logotypes, etc; evocative of the company's profound identity; durable, to the purpose of capitalizing the visual perception of each company; declinable (usable) on any type of communication supports; coherent with the reality that exists inside any company, and also, coherent with the respective company's future projects.

b) *visual identity systems* – they represent a resultant of putting into practice the coherence and connection reason between all the identification supports of an organization. The conceiving of a visual identity system needs that an analysis of the company's historical data be carried out, and, it also implies the taking into account of several aspects, such as: the constitutive elements of the existing visual identity (the organization's historical data, the steps of its evolution, and, not to omit, the present managerial and production structures); the perception, by the public, the

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[5] *C. Regouby - La Communication Globale,* Les Éditions d'Organisation, Paris, 1992; *p. 82*

present identity (image) of the organization; the strategic dynamics within which the company projects its future evolution.

c) *packaging* – it has in view the wrapping that defines the substance of the content; the conditioning that defines the structure of the content; the graphical expression that defines the marking of the content.

3.2. Communication at site

This type of communication refers, with priority, to the following two technical forms, namely sales incentive that has, initially, been centered on uniquely quantitative objectives (the motivation and the stimulation of the "force to sell" or of the distribution network with the purpose to obtain accurate commercial results), or on promotional actions to be developed ("articulated"), traditionally, "around" four large basic mechanisms: action to be taken against prices; games and competitions; prizes; "test" offers.

The domain of these "animation" activities is extremely rich and complex, starting from "*sampling and distribution of prospects based on the door-to-door system*", "*editorial coupon distribution*" and "*animation by promotional games at the product selling site*" and ending with "*the organization of tasting sessions*" and with *"accidental" sending of "mystery-clients*" (who are keen on purchasing the respective product which is about to "sell out" due to "massive selling opportunities"…). More than that, in order to become effective, such animation actions need quickness, an excellent organization, a perfect knowledge of the "site", and, last but not least, a high capacity "to seduce" when the consumer is contacted.

3.3. Direct communication

The technique that has in view the direct and individual "touch" of the scopes that the seller has proposed, while persuading the potential client to take actions and / or react immediately – this type of communication allows the obtaining of concrete results (to be measurable) and it thus facilitates the setting of the number of "contacts" that shall be generated further to the action that has undoubtedly exercised on the potential future buyer.

The applied and used methodologies as concerns the direct communication shall develop, improve, and they become, every year, more and more sophisticated. This way, the *mailing* procedure, the sales catalogue to be sent by correspondence, the press release accompanied by the answer – coupon, the phone practice, "the no – address flyers" that are distributed directly into the mail boxes, the telematics, etc – all of them represent an equal number of modern and efficient means that would allow not only a quicker adjustment of the offer to the increasing requests of certain market segments, but also and increase of the psychological impact of the direct communication on the public as consumer.

3.4. Socio – relational communication

The socio – relational communication has in view the internal relationships; the public relationships; the institutional relationships. In the context of the socio – relational communication, *the company has in view* the outlining of a vision and of the principles of an internal nature on the company's institutional vocation, by "covering" all the "dimensions" of this one: economic, social, cultural and public.

To this purpose, the organization's actions constitute the strategic basis of any form of internal communication, and the content of this one is, with priority, determined by the global communication assembly that is adjusted to the respective company. All the same, the role played by these actions is multiple, mobilizing, respectively (the organization's employees are directly involved), unifying (the project contributes to the acknowledgement of the company's identity), and integrating (it favors the convergence of all the employees' will towards the purpose fulfillment and / or the achievement of the organization's joint targets).

Conclusion

From the point of view of the communication, the present period is marked by and through the strong acceleration of the focus of this one both at the national level, and at the international one, as well. The fact can be explained by the appearance of several favorable factors such as the quick world-wide process of the products and of the exchanges; the intensification of competition on all the markets; the passage from "general communication" to the communication that is based on technologies that turn more and more sophisticated and expensive; the spectacular development of the "*out media*" – type communication (promotion, direct marketing, *design*, internal communication, public relations, sponsorships, etc), fact that has eloquently proven that the publicity agencies could, no longer, exclusively claim the communication monopoly.

Henceforth, the main element and the motor of these transformations at the society level, is represented by the *communication*. Therefore, in order to exist and durably develop, the company must appeal to the assembly of its own messages regarding the making up of a real territory of its identity and personality, while the basics of this territory has its origin in the culture of each organization taken apart.

Under such circumstances, by attempting to optimize each invested monetary unit, and by including, in a perfect synergy, the consumer and the citizen, in a viable and durable relationship with the organization, the communication becomes global.

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RETAILERS' METHODS TO ADJUST TO CHANGES IN CONSUMERS' BEHAVIOUR IN THE CURRENT PERIOD

Ioniță Elena*

Abstract

Given this economic crisis that has affected the entire planet, managers and/or company owners are subjected, under recession conditions, to a double pressure:

- Increased attention to the management of the own budget and the prioritization of certain cost types to the detriment of others, from the perspective of the consumer;

- They are afraid of the collapse of the business they run, considering what is happening around them: companies that seemed indestructible now declare to be bankrupt.

The situation of a person in such a position becomes thus very delicate, all the more so since the failure "picture" is so vivid and colourful. A company that all of a sudden can no longer afford to exist is a burden and becomes the source of many white nights for the other players.

Keywords: *financial crisis, advertising budgets, consumers' behavior*

JEL Classification: M31

We witness another chain reaction, generated by fear as well. If a manager notices that another company started to cut costs which are not an absolute priority, they will do the same because it looks like a commonsensical solution for survival. And to a certain extent it really is, but fear of the unknown brought about by the future combined with the lack of attention and analysis of alternatives may easily lead to decision making that could affect the future of the company on the long run. That is why such an endeavour is highly sensitive and has to be handled with much consideration and attention.

From among the typical reactions of companies during recession times, one of the most obvious and with the deepest implications is given by the reduction to complete removal of marketing-advertising budgets. In what follows, I will list some of the effects of such a change of behaviour and the manner in which it can affect the company balance and future.

Regardless of how desirable a product or services is, if there are no customers to purchase it, it is completely useless. Giving up advertising during crisis definitely means a decline, if not even disappearance from the market at a given moment, this is the extreme situation[1].

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[1] http://marketing.about.com/

There are many examples from the past which prove that, on the contrary, recession may even be the right moment for revival and overcoming of weaker competitors who do nothing but wait for better times.

Research conducted on what happened during past recessions shows that giving up advertising triggers an income drop by 20-30% for the next 2-3 years. Companies that do not completely renounce advertising and continue to promote their products resort now to what we are already accustomed to, namely the discount policy.

Although normal during recession, the discount policy is a double edge strategy[2]. The attempt to draw clients through lower prices can generate disturbance in terms of consumer trust. It is obvious that one product or another has to match in a way the customers' budget. However, price reduction under a certain "psychological" level gives birth to cautious reactions: the first and most important of them is the conviction that the said product is normally overrated.

There are many situations of the type "Do you realize what markups they had if they can afford now to drop the prices so much?" In such situations, consumer's trust, which was already quite fragile, rises further, being accompanied by a feeling of outrage and suspicion. Moreover, when faced with this cascade of price reduction, the consumer keeps postponing his buying decision and waits for further price drops. Large discounts, when they turn into a general phenomenon in the consumption society, gradually lead to the creation of unrealistic expectations (of price levels) from consumers, which can continue for long periods of time. Consumers are more cautious when buying products during crisis times, mainly those in the financial field. This can be an opportunity to create efficient products and brands. During recession, companies have the opportunity to gain more of their market share than in normal times. Companies that cut costs will have a rough time going back to the pre-recession period. An economic analysis involves 3 cost-related scenarios:

a) to maintain costs at the same level,

b) to cut costs by 50% for one year, then to go back to the normal level of costs,
c) to cut/reduce costs by 100% for one year and then go back to normal costs.

In marketing, the large majority of companies opt for:

1. Promotional campaigns focused on the price
2. Redirecting budget onto direct marketing strategies
3. Specializing on a given market sector
4. The increase of the marketing budget is a measure adopted by only one third of the companies. Enterprises that froze or decreased the marketing budget explain this either through uselessness, or through lack of direction.

2 Barbara Hruzova – Marketing Strategies during Financial Crisis, Masters Dissertation, Halmstad University, 2009, pag. 8-9

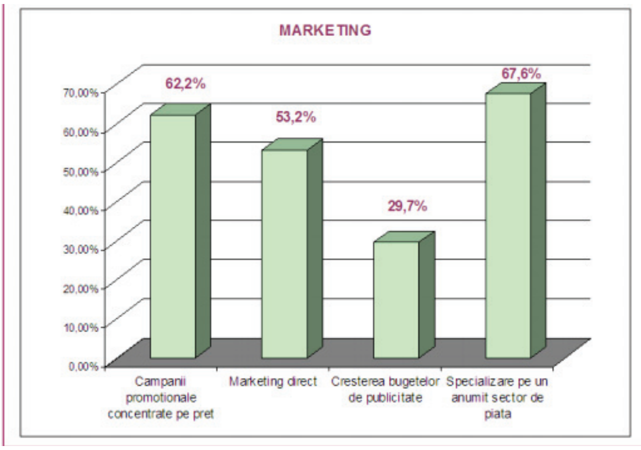

Figure 1: Investment in marketing in 2010
Source: www.businessday.ro

Company survival is a priority and reductions can be unavoidable. The safest reductions for the company can be:

- to cut the budget for small brands rather than for large brands
- many times, small brands have a disproportion of marketing costs because they try to grow, but large brands have a higher probability to generate incomes
- to exploit seasonality in order to make reductions outside periods with large sales.
- to support stagnating brands.

In sales, the most popular measures are:

1. The fidelity of existing customers
2. Developing the professional silks of the sales team
3. Flexibility as regards price negotiations
4. Attacking the competition portfolio

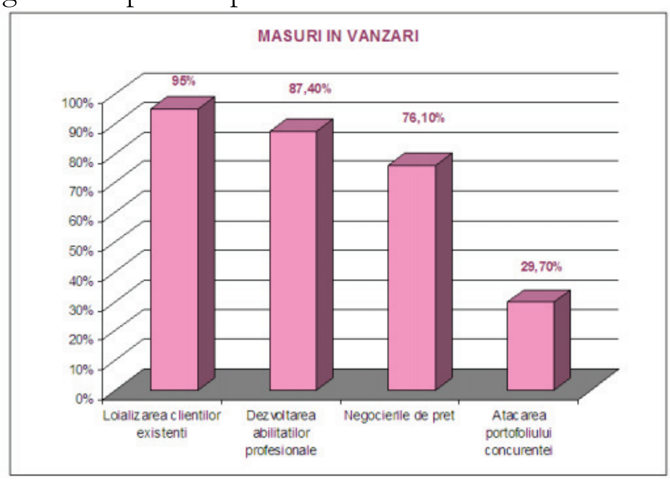

Figure 2: Sales strategy in 2010
Source: www.businessday.ro

A collateral effect of the discount phenomenon is team shopping, in which several persons interested in the same type of product get together and place additional pressure on the seller, aiming to obtain additional volume discounts. The consumer becomes thus stronger and stronger and more aware of his power, gradually developing a set of mechanisms whereby he can exert his newly-acquired quality. The second reaction to large price reductions refers to the evaluation of the said product as being morally worn or close to the limit of the guarantee period, which, again, is an image minus and affects the consumer's trust. The third reaction to massive discounts, which normally appears when the consumer notices the persistence to it in certain products or category of products, consists in questioning the quality of the product. Whether it is related to reality or not, this conclusion is finally commonsensical and should make us think when we make the decision to drop prices under a certain level. On the other hand, when a price does not modify or, at any rate, not significantly, the normal assumption can be again divided into two main components: the product is very popular and has a high demand on the market and the product already has a fair price. The fear not to lose the sales volume may be so strong, that a company may lose sight of long-term effects. Obviously, the temptation is enormous and the consumers will not hesitate to buy, but they will also expect in the future to see the same commercial behaviour from the said company. If the product is deemed capable to self-support itself as far as value is concerned (either emotional or utilitarian etc), customers who momentarily focus on cheaper variants will come back in the future, when the situation improves. But, once the territory of premium products is lost, it can hardly be won again.

Most companies apply approximately the same strategies to fight the crisis, but the effect of such measures is different depending on how these measures are put into practice.

Seven elements of good practice in the implementation of survival measures in crisis times were identified, which make the difference between successful companies and failing ones[3].

Companies that manage to survive the crisis undergo the following stages:

1. They admitted that they will undergo a long period of crisis and that the idea to "hold on" for a few months until the crisis is over is nothing but an illusion.

2. They accepted the new market conditions and the new psychology of the buyer to persist even after economic recovery.

3. They have a long- and medium-term plan and strategy (3-6 years).

4. They adopt anticrisis measures through the lens of the long- and medium-term strategy, avoiding falling prey to temporary savings.

5. They train and involve their staff in making decisions to cut costs.

6. They train and adjust the staff professionally to the new market conditions.

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[3] Barbara Hruzova – Marketing Strategies during Financial Crisis, Masters Dissertation, Halmstad University, 2009, pag. 10-12.

7. They use specialized companies in the fields that implement such measures: renegotiations, sales development, staff efficiency and even lay offs where, unfortunately, they are necessary.

During crisis periods, the only solutions for survival are price reductions and discounts[4]. In fact, buyers are increasingly sensitive to price and the battle is for offers as tempting as possible for the market. The problem is that the moment customers get used to discounts, they will always apply the same buying strategy – the lowest price. Today they buy from a hypermarket, tomorrow from another, hunting for the best deal. Buyers even got to 5-6 stores until they purchase a product. It is obvious that no store or company can always have the best deal, and on the long term, the strategy of low prices is not useful. Customers are used to looking for the best offers from those who sell them the products, but nobody thinks that price is not always the best solution. Obviously, a good price will be tempting for the client, but even more so would be that people buy from you because you are different from the others due to your attitude towards your customers. The customer is not only an individual with some money in his pocket, but he also wants to be served politely, to be smiled at, to find products easily in the store, to be thanked for shopping there. Discounts and promotions are also important, but they do not ensure long-term survival. Moreover, a loyal customer is also willing to pay. We have to mention that buying habits do not change that easily. A customer does not give up a store he has been going to for years only because he found a better deal somewhere else. But he will leave if he finds somewhere else better deals and if he is treated better than at the store where he usually shops.

Consumers have become more careful about promotions and deals, they no longer make "experiments" (do not try new products they do not know and about which they heard nothing) and no longer put in their basket products they do not need thinking "Maybe we will need them".

But promotions increasingly make consumers take decisions on the spur of the moment (in front of the shelf) and try different brands, wishing to validate their choices by comparing them to other brands.

Consumers pay more attention to the product expiry date, have reduced their visits to shopping centers, have bought from modern retail centers less fresh products, completing their necessary supplies from proximity shops or the market. Except for the segment that reduced both the quantity, and the quality of purchased products (16%) and which is very attentive to the product price and for whom offers, promotions and hard discount are a solution, for the others, the best value for money will remain the focus of attention. One of the effects of the modification of consumption behaviour is the significant migration of consumers from traditional stores to online ones, the most efficient in meeting consumers' needs.

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4 http://www.slideshare.net/oukearts/how-to-restrategize-your-company-in-an-economic-crisis-updated-and-expanded

Retailers who do not have a well-organized business model will continue last year's series of bankruptcies[5]. But those who pay attention to the market trends, do not only have the chance to survive, but even to grow.

The change of consumers' behaviour in crisis periods is the main factor that influences the retail market. Romanians spend less, more seldom, calculate more the value for money and are more careful about promotions. This behaviour also leads to the change of retailers' strategy.

Besides the reduction of consumption costs and the behaviour change, retailers are affected because real estate developers reduces or renounced their investments, and competition became tougher, since in almost all cities, there is least one modern retailer (supermarket, hypermarket, discounter, mall etc).

Thus, in order to fight the financial crisis, some retailers slowed down or stopped their development, while others expended and will keep expanding in order to gain more market share.

On the short term, retailers in the former category will win, whereas on the long term, the latter category will win. On the whole, both in 2009 and in 2010 and 2011, those retailers who knew to adjust to consumers' need were and will be successful, because they did not limit their range of products, but provided customers with the products they need.

According to studies conducted by research companies in the field, in Romania, retailers gain customers by varying products and providing ranges of products for all tastes and budgets[6]. Together with the price, this is one of the main criteria that determine Romanians to select the store where they shop and has been part of the success strategy of large stores.

Knowing and adjusting to consumer's needs becomes the success key for retailers, since a simple analysis of sales and stocks is not enough to sketch a managerial strategy.

In 2011, retailers who communicate clearly and efficiently with their customers will gain. And they can do so through online social networks. Winners will also be the retailers who provide to their consumers products with the best value for money and who invest in their own brands.

Marketing programs should focus on impeccable services and customer loyalty, not on price reductions, that should be the promotion strategy used only occasionally. Providing advantages to loyal customers, fidelity cards, top services, these are the reasons for which customers keep coming back. They are willing to pay more for the product if they receive something extra.

In the United States, 61% of the companies use reductions, coupons and discounts as a strategy to attract customers in this period, and 57% of the customers admit that these methods are effective, motivating them to buy.

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[5] http://www.freeworldacademy.com

[6] http://www.freeworldacademy.com

To conclude, we can say that removing marketing-advertising budgets is not a solution for survival during recession times. The effort to promote products and services has to focus on variants adjusted to the current moment, following the best impact with a minimum financial effort. Obviously, the attempt to obtain more from less requires energy, and the result is not always as expected. But in the end, the difference between success and failure is given by the best idea correctly implemented.

The idea is that contact with reality has to be kept during crisis times as well and mangers should pay attention to the following issues:

- cost control;
- the nature and dimension of costs with the hired staff, stocks;
- profit margin;
- marketing-advertising budgets.

Therefore, care should be exercised in deciding price reductions. There are many variants to keep customers' interest alive, even during recession, besides the simplest solution of selling prices, especially that consumers adjust quickly and forget with difficulty.

CHINA IN THE RENEWABLE ENERGY RACE

Sarmiza Pencea*

Abstract

For over three decades Chinese economy grew annually by an average of almost 10%, driven by huge investments in industrialization, urbanization and infrastructure networks and by large exports of price-competitive goods.

The downside of China's accelerated development is its insatiable hunger for energy – China also became the world's largest energy consumer - and for natural resources, which, on the one hand contributes to depleting faster the global stocks of non-renewables and, on the other hand, it dangerously increases pollution.

Keywords: renewable energy, Chinese economy, catching up

JEL Classification: O53, Q20

1. Briefly on Chinese Catching Up and Its Costs

For over three decades Chinese economy grew annually by an average of almost 10%, driven by huge investments in industrialization, urbanization and infrastructure networks and by large exports of price-competitive goods. Hundreds of millions of people were pulled out of poverty, the living standards improved visibly and China re-positioned itself in the world economy. The strength of its economic status was tested and proven by the swift way in which it managed to overcome the global economic crisis of 2008-2010, which devastated other economies. In fact, in the aftermath of the crisis, the Chinese economy seems to be stronger, with its position in the world greatly improved.

Thus, in 2010 China became the second largest economy in the world by its GDP at official exchange rate and, according to forecasts, it is going to surpass the US in a time span of maximum 15 to 20 years. At present, China is also the world's no.1 industrial producer, the no.1 exporter and the second largest importer worldwide. It is also ranked first in a number of international markets, as the largest producer, the largest consumer, or both (see Table no.1). At the same time, China's foreign exchange reserves amount to the staggering level of USD 3 045 billion[1] (March, 2011), the largest ever worldwide.

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[1] http://www.chinability.com/Reserves.htm

Table no. 1: China's positioning in some international markets*

International market	World producers ranking	World consumers ranking	World exporters ranking	World importers ranking
Coal	1^{st}	1^{st}		2^{nd}
Steel	1^{st}	1^{st}	2^{nd}	1^{st}
Electricity	2^{nd}	2^{nd}		
Oil	5^{th}	3^{rd}	33^{rd}	4^{th}
Natural gas	9^{th}	9^{th}	32^{nd}	27^{th}
Textiles and clothing	1^{st}	1^{st}	1^{st}	
Consumer appliances	1^{st}			
Cars	1^{st}	1^{st}		
Semiconductors	1^{st}			
Sulfuric acid	1^{st}			
Fertilizers	1^{st}			
Ammonia	1^{st}			
Dyes	1^{st}			
Synthetic fibres	1^{st}			
Paper and cardboard	1^{st}			
Construction materials	1^{st}	1^{st}		
Cement	1^{st}	1^{st}		
Plate glass	1^{st}	1^{st}		
Construction ceramics	1^{st}	1^{st}		
Sanitary ceramics	1^{st}	1^{st}		

Sources: www.chinaknowledge.com, www.digitivity.com, www.ciafactbook.org http://www.issb.co.uk/global.html ; * **Note**: this is a non exhaustive listing

The downside of China's accelerated development is its insatiable hunger for energy – *China also became the world's largest energy consumer*[2] - and for natural resources, which, on the one hand contributes to depleting faster the global stocks of non-renewables and, on the other hand, it dangerously increases pollution. (Notice that

[2] Lam, Cory – *12th Five Yearr Plan Hailed as "Greenest FYP in China's History"*, China Briefing, 5.04.2011, www.china-briefing.com

most of the example industries from Table no.1, in which China excels, are both energy-intensive and highly polluting industries).

From the point of view of its requirements for natural resources, it was calculated that, if it were to opt for the traditional western economic model and get its 1.3 billion population live by American standards, China would need more planets Earth for the necessary inputs.

At the same time, it is well-documented that rapid development took its toll on China, and the country became one of the most polluted countries in the world, contributing heavily to the green-house effect, the global warming, the severe damage of soil and the poisoning of the planetary ocean (see Box no. 1). Both these factors, the insufficiency of resources, energy included, and the negative impact on the environment, indicate that development in the longer run is unsustainable unless China, and the other countries as well, change course, switching to an entirely different development model, based on renewable, non-polluting energy resources and technologies.

Box. No.1: China's Pollution in Facts and Figures

- *China is the greatest green-house gas polluter in the world;*
- *At present, China operates two new coal-fired power plants every week;*
- *Only 1% of city dwellers in China breathe safe air according to EU standards;*
- *If China would keep its present growth rate without improving its energetic efficiency, in 2030 it could throw into the atmosphere a quantity of carbon dioxide equal to that emitted by the rest of the world;*
- *If carbon dioxide emissions per head in China become equal to those in the US, then the total global emissions would triple, with catastrophic consequences;*
- *Out of the world's 20 most polluted towns, 16 are in China;*
- *In China there is one third of the whole garbage produced by mankind; One third of the Chinese territory is affected by acid rains and one quarter is a desert;*
- *Almost 100 towns suffer from landslides due to the excessive use of the water table;*
- *80% of Chinese rivers are heavily polluted and 50% of the population drink polluted water;*
- *Yearly, Yangtse river discharges into the ocean1 billion tonnes of untreated residual waters;*
- *Environmental damage made cancer the leading cause of death in China.*

Sources: Kahn, Joseph; Yardley, Jim - *As China Roars Pollution Reaches Deadly Extremes,* www.nytimes.com; Wolf, Martin - *China Challenges the Whole World,* www.ft.com ; *China's Carbon Dragon. Growing China's Economy while Cutting Planet Warming Emissions,* www.csmonitor.com; *More Details about China,* http://arthurthinks.wordpress.com

2. Changing the Course: The New Focus on Renewable Energy

2.1 The structure of Chinese energy consumption

Chinese *energy consumption is currently dominated by coal*, which accounts for over 70% of China's total primary energy consumption and for almost 43% of the world total. *China is the greatest consumer of coal globally*, with industry - which accounts for almost 47 % of the national GDP – the greatest energy-consumer among sectors. To be able to meet its huge energy needs, the country became not only *the largest producer, but also the second largest importer of coal in the world.*

Besides coal, China is also a considerable producer and a major importer of *oil - which is its second most important primary energy source.* The country ranks the 5th and, respectively, the 3rd in global oil production and imports.

As shown in Table no. 2, coal and oil meet the bulk of Chinese demand for energy, while natural gas and nuclear power have only marginal shares in the total energy consumption. Within the total energy consumption structure, a more significant share, of 6.6%, is taken by *hydropower, which is the third most important energy source* for this country. *Globally, China is the largest consumer of hydropower*, accounting for over 18% of the world hydropower consumption.[3]

Table no. 2: Comparative Structure of Primary Energy Consumption, by Major Countries (%, 2008)

COUNTRY	OIL	GAS	COAL	NUCLEAR POWER	HYDRO POWER	TOTAL PRIMARY ENERGY CONSUMPTION
USA	38.5	26.0	24.6	8.4	2.5	100
CHINA	18.8	3.7	70,2	0,7	6,6	100
RUSIA	19.0	55,3	14,8	5,4	5,5	100
JAPAN	43,7	16,6	25,4	11,2	3,1	100
GERMANY	38.0	23.7	26.0	10.8	1.5	100
FRANCE	35,8	15,5	4.6	38.6	5,5	100
UK	37.2	40.0	16.7	5.6	0,5	100
AUSTRALIA	35.9	17.9	43.4	-	2,8	100

SOURCE: BP 2009 World Energy Statistical Data

[3] BP Statistical Review of World Energy 2010

2.2 The new focus on renewable energy

Over the past few years, *China has emerged as a global leader in renewable energy,* its remarkable rise showing a strong commitment by the government to diversify energy sources, alleviate pollution, reduce imports and boost the country's energetic security.

In China, energy was identified as a strategic sector, and, as a consequence, a host of new *policies and regulations* were adopted with the purpose of encouraging energy efficiency and an increased deployment of renewable energy. Also, more than two decades of *investments in science and technology* focussed on the energy sector, aiming at making the country an innovator, as well as a low-cost manufacturer of cutting-edge technologies.[4] The combination of policy incentives and investments has encouraged major advances in the development of renewable energy, especially wind and solar power.

Recently, investments in the sector expanded very swiftly and, in just a few years, China managed to surpass the US and become *the no.1 investor in clean energy, worldwide*. (See Table no. 3 and Table no. 4). It is significant and worth noticing that in 2009, when China outran the US for the first time, the total amount of Chinese investments was almost double that of the US. It is also worth mentioning that, additional to other funding, over the last two years, an important amount of the financial stimulus package earmarked for curbing the impact of the global crisis was used by the Chinese central and local governments for clean energy investments. This helped keeping the pace of investments high, giving a significant boost to the renewable energy sector, and, at the same time, it created a significant number of jobs and it generated growth.

Table no. 3: The Top 10 Countries, by Five -Year Growth in Investment

Country	Investment Growth 2005-2009
1. TURKEY	178%
2. BRAZIL	148%
3. CHINA	127%
4. UNITED KINGDOM	127%
5. ITALY	111%
6. USA	103%
7. FRANCE	98%
8. INDONESIA	95%
9. MEXICO	92%
10. REST OF EU27	87%

Source: G-20 Clean Energy Factbook, Who's Winning the Clean Energy Race? Growth, Competition and Opportunity in the World's Largest Economies, the PEW Charitable Trust, 2010

[4] World Watch – *Renewable Energy and Energy Efficiency in China*, 2010, www.worldwatch.org

Table no. 4: Top 10 in Clean Energy Investments, 2009

Country	Clean Energy Investments (bn. USD)
1. CHINA	34,6
2. USA	18.6
3. UNITED KINGDOM	11.2
4. REST OF EU27	10.8
5. SPAIN	10.4
6. BRAZIL	7.4
7. GERMANY	4.3
8. CANADA	3.3
9. ITALY	2.6
10. INDIA	2.3

Source: G-20 Clean Energy Factbook, Who's Winning the Clean Energy Race? Growth, Competition and Opportunity in the World's Largest Economies, the PEW Charitable Trust, 2010

At present, due to its huge investments*, China is already topping the world in production of compact fluorescent light bulbs, solar water heaters, solar photovoltaic (PV) cells and wind turbines* and is one of the most rapid countries in terms of installing renewable energy generation capacities.[5] Having built a strong manufacturing base and export markets, China is striving now to meet domestic demand by installing substantial new clean energy capacities. Its best results can be already seen in wind and solar power.

2.2.1 Wind Power

China *has the largest wind resources in the world*, one quarter of them on land and three-quarters off-shore.[6] Researchers from Harvard and Tsinghua universities have found that *China could meet all its electricity demands from wind power through 2030.*[7] Therefore, Chinese leaders identified *wind power as a key growth component* of the country's economy.

The total wind power installed capacity increased from only 1.3 GW in 2005, to 12 GW in 2008, 26 GW in 2009 and 41.8 GW in 2010, when *China became the largest wind energy provider worldwide.* According to the Global Wind Energy Council, the

[5] Bradsher, Keith – *China Leading Global Race to Make Clean Energy*, www.nytimes.com
[6] www.wikipedia.org
[7] Ecogeek.org – *China Could Replace Coal with Wind*, 31.01.2010

development of wind energy in China, in terms of scale and rhythm is absolutely unparalleled in the world.[8]

Presently, there are *80 wind farms operating in China, all on shore*. The construction of the first off-shore wind farm, consisting of 34 wind turbines, was started and completed in 2009 to provide electricity to the 2010 Shanghai World Expo.

In **Table no. 3**, hereunder, a comparative image of the world most important wind power producer countries, is presented. In 2009, China managed catching up Germany and both countries ranked first, with 16.1% of the total world installed capacity, each. A year later, China increased its wind power generation capacity by 62% to a total of 41,8 GW, surpassing Germany and becoming sole leader.

Table no. 3: Cumulative Installed Wind Turbine Capacity (GW)

COUNTRY	2009 (GW)	2009/2008 CHANGE	2009 SHARE OF TOTAL WORLD
US	35.2	39.3%	22.0%
EUROPE, of which:	76.6	16.0%	47.8%
- GERMANY	25.8	7.9%	16.1%
- SPAIN	18.8	13.5%	11.7%
- FRANCE	4.8	30.1%	3.0%
- UK	4.3	33.0%	2.7%
CHINA	25.8 (41,8 in 2010)	113,3%	16,1% (22% in 2010)
INDIA	10.8	12.1%	6.8%
TOTAL ASIA PACIFIC	42.0	59.0%	26.3%
TOTAL WORLD	160.1	31.0%	100%

SOURCE: BP Statistical Review of World Energy, June, 2010; Copsey, Tom; Isabel, Hilton - Greening China. Outlook for European SMEs, Spring 2011

To encourage local wind turbine manufacturers, China implemented policies to stimulate joint-ventures and technology transfers, mandated the use of locally made wind turbines and subsidized wind energy R&D. As a result, the *number of local specialized companies increased to over 80* (from only 6, in 2004)[9] and *their market share increased to least 50%* of the domestic market, which was previously dominated by

[8] www.wikipedia.org
[9] Xinhua – *China Speed in Clean Energy Business*, 13.12.2009

foreign companies.[10] Furthermore, *in 2009, China became the largest wind turbine manufacturer in the world, over-passing Denmark, Germany, Spain and the USA.*[11] Also, *three of China's wind turbine producers - Sinovel, Goldwind and Dongfang - are now in the top 10 globally.*[12]

Multinational companies respond to the rapid development of the wind power sector and market in China, building locally big state-of-the-art factories. For instance, in 2010, Vestas of Denmark has erected in NE China *the world's biggest wind turbine manufacturing complex*, where it transferred the technology to build the latest electronic controls and generators.[13]

2.2.2 Solar power

China has rich solar resources across most of its territory. More than 96% of its land receives over 1 050Kwh of solar radiation per square meter, and two thirds of its surface receives 2 200 sunshine hours a year.[14]

In solar power, just like in the case of wind power, China first focussed on developing manufacturing capacities for equipment and on gaining market share in foreign markets. In the home market, developments were quite divergent: while wind power farms expanded in China quicker than anywhere else, solar power generation lagged behind and only recently it was paid more attention. That is why, when speaking about manufacturing and exports of solar power generation equipment, we find China on top of world leaders, but when we look at the locally installed capacity, we discover that the country still has a long way to go, as PV installed capacity still account for less than 2% of the world total.

Solar energy can be used either directly, for water heating (solar water heating - SWH), or to generate electricity and store it in batteries for later use (solar photovoltaic/PV cells and panels). *China is the largest manufacturer in the world, of both solar water heating (SWH) and solar PV equipment.* [15]

In SWH, China cumulates nearly two thirds of global capacity, and production goes substantially to its home market, where more than 10% of the households rely on sun to heat their water. At this level of consumption, China is not only the world leading manufacturer, but also the *world leading user of SWH systems.*

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10 UNEP – *Renewable Energy in China*, www.unep.org

11 Bradsher, Keith – *China Leading Global Race to Make Clean Energy*, www.nytimes.com

12 Martinot, Eric;Jungfeng, Li – China's Latest Leap: Renewable Energy Policy Update for China, 21 July 2010, www.martinot.info, www.ren21.net

13 Martinot, Eric; Jungfeng, Li – China's Latest Leap: Renewable Energy Policy Update for China, 21 July 2010, www.martinot.info, www.ren21.net

14 World Watch – *Renewable Energy and Energy Efficiency in China*, 2010, www.worldwatch.org

15 Bradsher, Keith – *China Leading Global Race to Make Clean Energy*, www.nytimes.com

As for solar PV, in 2009 China produced 45% of the entire global volume[16], mainly for export. With 95% to even 99% of its yearly production sold to foreign markets, it's no wonder China became, besides the leading solar PV producer, *the largest exporter of solar PV in the world,* too. The pace of development in solar PV production and export was very swift in this country. It is undoubtedly impressive to note that, *in only one decade, China went from making just 1% of PV cells for solar panels, to being the world's leading producer and capturing 40% global market share.*[17] For 2011, Chinese firms are expected to make more than half of the solar panels manufactured globally, and 80% of the solar hot-water units.[18]

Chinese solar PV exports go mainly to Europe and the US. In the following table (Table no. 4), the top destinations of the Chinese solar PV exports are presented, and also a comparison of Chinese and American exports to the same markets, which reveals the strength of Chinese competitiveness in solar PV.

Table no. 4: Top 10 Destinations of Chinese Solar Panels Exports

RANK	MARKET	Solar PV 2009 Export Value (USD billion)	2009/2008 Change IN Chinese Exports (%)	Chinese Solar PV Exports as compared to US Solar PV Exports (%)
1.	GERMANY	3.77	+20.5%	608.9% higher
2.	NETHERLANDS	1.57	+158.7%	35 000 % higher
3.	ITALY	0.85	+21.8%	1074 % higher
4.	BELGIUM	0.55	+37.7%	771% higher
5.	USA	0.44	+54.0%	
6.	S. KOREA	0.41	- 14.7%	2371.5% higher
7.	SPAIN	0.34	- 91.8%	4505% higher
8.	JAPAN	0.28	-1.6%	703.2% higher
9.	FRANCE	0.28	+45.8%	340.6% higher
10.	AUSTRALIA	0.21	+ 281.2%	6460% higher

SOURCE: Workman, Daniel – China Versus US, Solar Panel Sales by Country, Suite 101, 5.12.2010

[16] Idem

[17] Richardson, Michael – China's Green Ambition, US Sees Red, Yale Global, 5.01.2011, http://yaleglobal.yale.edu

[18] Idem

3. Planning for the Future

The five year plan (FYP) remains a key policy instrument for the Chinese economy. The recently concluded 11th FYP targeted 10% renewable energy by 2010 and 15% by 2020, a 20% reduction in energy intensity (energy per GDP unit) and a 10% reduction in pollutants over the 2006-2010 time frame. The 2010 targets were broadly achieved (See Table no. 5)

Table no. 5: Key Energy and Climate Goals and Indicators, 2006-2020

INDICATORS	11TH FYP 2006 - 2010 (target)	11TH FYP 2006 - 2010 (actual)	12TH FYP 2011 - 2015 (target)	13TH FYP 2016 -2020 (target)
Energy intensity (% reduction in 5 years)	20%	19.1%	16%	NOT SET
Carbon intensity (% reduction in 5 years)	NOT SET		17%	40 - 45% vs. 2005
New energy (% of primary energy)	10%	9.6%	11.4%	15%

SURSA: Delivering Low Carbon Growth. A Guide to China's 12th Five Year Plan, The Climate Group, HSBC Climate Change Centre of Excellence, 2011

The 12th five year plan just launched in March 2011 is considered "the greenest in China's history". It stresses on the importance and urgency to create "a green China" building on the success of the previous FYP and setting ambitious targets for the next five years. On the non fossil and renewable energy question, the targeted growth in installed capacity by the end of 2015 is to increase nuclear power four-fold, to 40GW, to add 63 GW new hydroelectric capacity, to more than double the current level of wind capacity by adding new 48 GW, while solar power is expected to reach 5 GW installed capacity. At the same time, the share of coal within the energy mix is planned to fall from 72%, to 63%.[19]

To help meeting these targets, the New Energy Industry Development Plan 2011-2020 provides for governmental investments in renewable energy of Euro 220-330 billion over 10 years, with amounts of Euro 170 billion earmarked for wind

[19] Hannon, Alison; Liu, Ying; Walker, Jim; Wu, Changhua - Delivering Low Carbon Growth. A Guide to China's 12th Five Year Plan, The Climate Group, HSBC Climate Change Centre of Excellence, 2011

power and Euro 22 billion for solar energy. This package is part of an overall investment of Euro 550 billion in non-fossil energy, which additionally includes nuclear and hydropower.

From all its actions of the last decade and plans for the next decade, it is obvious that China understood that its future economic development, its energetic security and its competitiveness in the international markets will increasingly and vitally depend on the way it behaves and acts in the renewable energy race, and, as such, it makes every effort to gain competitive advantage in this field. China aims at mastering and dominating renewable energy technologies and markets and, to this end, it makes huge efforts to get in the forefront, to position itself as an undisputable leader, pacesetter and creator of new technologies. "*These efforts to dominate renewable energy technologies raise the prospect that the West may someday trade its dependence on oil from the Middle East, for a reliance on solar panels, wind turbines and other gear manufactured in China.*"[20]

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A SHORT CRITIQUE OF PERFECT COMPETITION MODEL FROM THE PERSPECTIVE OF AUSTRIAN SCHOOL OF ECONOMICS

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Radu Muşetescu*

Abstract
The perfect competition model is not the only model which we can use in analyzing the markets. Although it is quite clear that competition laws are based on it, there are not sufficient reasons to confirm its suitability for this enterprise. We raise the question of realism implied in concepts like 'homogeneous products' and 'numerous participants', and then we try to portrait the world as it is stated in the perfect neoclassical model. The discussion has powerful insights given by the Austrian methodology which in time proved to be a strong and efficient competitor for the neoclassical paradigm. The perfect competition model is opposed to free competition model, or the competition unhampered by any violent restrictions imposed to entrepreneurs in the process of satisfying the consumers.

Keywords: perfect competition, economic calculation, money, prices, uncertainty, profits

JEL Classification: B53, D41

1. Introduction

Pure and perfect competition is similarly defined in all neoclassical literature which is relevant for this present paper. A definition which would more or less accommodate the opinions of all authors could be taken from Samuelson:

The perfect competitor is that which can sell all he wants at the current market price, but is incapable to increase or decrease in an appreciable measure the market price. And, by definition, a perfect competitive industry is one exclusively composed of many perfect competitors (Samuelson, 1958, p. 478)

This is Paul Samuelson's view on perfect competition, which is often called *pure* competition because of a so-called harmony assumed to exist between the competitors. This harmony is the result of their incapacity to alter in an significant way the market price and thus, to change their positions as sellers on the market. The

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pure and perfect competition model is the opposite of impure and imperfect competition, defined as the state of the market in which the *harmony* between competitors disappears. Neoclassical authors like Paul Samuelson, William J. Baumol, Alan S. Blinder and Harold Demsetz agree with the idea that economic reality is not comparable with the perfect competition model but with the imperfect one. As a result of this consent between neoclassical authors, we could conclude that also real economic competition belongs as a phenomenon to this imperfect economic framework.

A more generous definition we find in Baumol and Blinder (1979, pp. 420) who name the perfect competition, a market without barriers to entry (freedom of entry and exit). This implies numerous competitors with sufficiently low market shares so that they can't have any impact on prices. They produce homogeneous products, in a state of perfect information regarding all the available market conditions. This is a similar definition with that advanced by Samuelson, with the only difference that the latter assigns to the competitors a little power of impact on price[1]. The problem is that the model doesn't show the *optimum* proportion in which the competitors can change the price, but we can conclude in the spirit of neoclassical competition theory, that it is most unlikely that they dispose of this power.

In the following we will explain in detail the perfect competition model assumptions, and we will try to deliver a critique of them from the perspective of the Austrian school of economics.

2. A review of the basic assumptions of the perfect competition model

With the help of a graphic representation, the perfect competitor would look like in Figure 1:

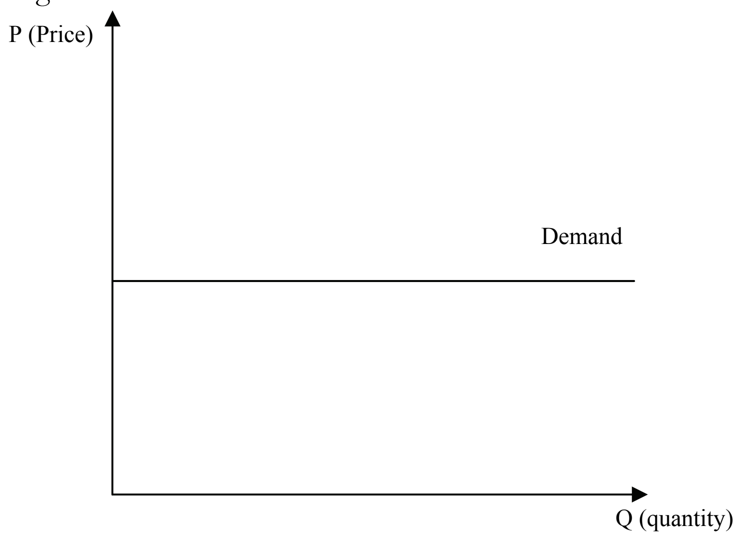

Fig. 1: The demand for the product of the competitive firm

[1] „…is incapable to increase or decrease in a appreciable measure the market price"

In the above figure, it can be noticed a constant demand for product (Q), at a price which remains unchanged for an unlimited period of time. At this point of the discussion we raise our first question of the paper, concerning the price of the good and its formation. If we suppose that the competitors can't have any impact on the market price, how can the model still deliver a hypothetical price? Figure 1 makes the implicit assumption of a preexistent price (*p*) but does not explain its formation. If all competitors have *small size* that no one can change the market price, we could ask then how come that the prices still emerges on the market as monetary phenomena? Who or what is determining prices on market? By deduction, we can advance two hypotheses. The first is the **realist hypothesis** which stipulates that the initial price results naturally from the demand and supply of goods on the market. This is valid but unacceptable for the model, because it assumes an unlimited continuity of the demand curve (horizontal or perfect elasticity). The assumption of perfect elasticity neglects in this way the existence of potential fluctuations in demand and supply. The second is the **hypothesis of an imaginary construct** in which both price and demand represent a *datum* of the model, although it is quite clear that such a model cannot come close to reality.

Therefore we are put in front of two alternatives. On the one hand, choosing the realist hypothesis but neglecting the model; if a market price evolves from fluctuations then why the price from the model should be considered different in nature? Having knowledge about the inability of competitors to change the price we conclude that the price from the model is not a real market price. On the other hand, choosing a hypothesis based on an imaginary construct; which means that we are aware that such a price can't appear on a market, in the conditions of uncertainty and profits; its formation implies the abandon of two immutable economic realities and this leads to the inconsistency of the model and its inappropriateness for describing the reality.

Prices are monetary phenomena which coordinate the competitors on the market in their production decisions. In reality, prices are subjective evaluations made by both consumer and entrepreneur regarding the value of the goods. Economic calculation is impossible in the absence of real market prices and more specifically, prices in terms of money, a generally accepted medium of exchange on the market. Ludwig von Mises states that:

Economic calculation cannot comprehend things which are not sold and bought against money. (Mises, 1966, pp.214)

Monetary calculation is the main vehicle of planning and acting in the social setting of a society of free enterprise directed and controlled by the market and its prices. (Mises, 1966, pp.230)

But the existence of money implies that individuals do evaluate the other goods less marketable than theirs. The only reason for which people accept and are interested in money is their marketability.

For the money commodity is demanded and held only because it is more marketable than other commodities, i.e., because the holder is more sure of being able to exchange it. In a world where prices and demands remain perpetually the same, such demand for money would be unnecessary (Rothbard, 2004, p.328)

For their marketability be appreciated in different grades, it is necessary the assumption that more than two goods exist. Coming back to the perfect competition model according to which the competitors must produce homogeneous goods, we can conclude that such a model is incompatible with the existence of a good such as the money, since money becomes a medium of exchange through a natural and rational process of selection on the market. Thus, it is most unlikely that within a world described by the perfect competition model, money would ever appear. This is one more reason to prove the inconsistency of the model.

The theory of free competition[2], as developed by the Austrian school of economics, insists, when discussing the problem of formation of prices, on the subjective evaluations of the consumers of the marginal units of a good, and on the ability of the entrepreneur to correctly forecast the needs of the consumer. In the Austrian view of the market process, prices are monetary phenomena which have as point of emergence the intersection of demand and supply, in a point called a temporary equilibrium, until

... changes in demand or supply conditions establish a new equilibrium price, toward which the market price again tends to move. (Rothbard, 2004, p. 247)

To maintain an unlimited equilibrium state in time for explaining economic phenomena such as competition can lead to serious interpretation errors.

The main objection of Israel Kirzner to the neoclassical model of perfect competition refers to the fallacious use of a concept of equilibrium for delivering a theory of price, instead of the use of realistic-competitive framework of market process. (Costea, 2006, p. 119)

In the logic of the imaginary construct hypothesis, it is easy to observe that the only way in which the demand could be blocked at the perfect horizontal level, was to impose the condition of homogeneity. The reason is that because according to the neoclassicists, only in this way the consumer will be indifferent to what product he buys. Choosing between X and Y will not constitute a problem, because both X and Y are identical. The consumer is *indifferent* whether he chooses X or Y. But, in reality, there are no homogenous products and the problem of substitution still arises in a context where apparently that would be impossible. If a consumer is in the position to buy an apple and a bottle of water, but decides to buy only the water then this means that he values the water as a more urgent need than the apple. Thus, the demand for apples will fall and determine a decrease in their market price. This is

[2] Best described by Murray Rothbard: " 'Free competition' is the application of liberty to the sphere of production: the freedom to buy, sell, and transform one's property without violent interference by an external power." (Rothbard, 2004, pp. 654)

why a model of perfect competition in which competitors are producing heterogeneous goods would not be possible, because the consumers would be free to exert their power of substitution by allocating their resources to the most urgent needs, thus destabilizing the prices of the goods. The homogeneity assumption is perfectly compatible with the model of perfect competition. But if we consistently apply this condition to the reality we would obtain a world where all the goods are drastically reduced to a single one.

Ultimately, this implies that there can be only one good in the economy; if there are any more than one, the cloven hoof of heterogeneity seeps in. (Block, Barnett and Wood, 2002)

Only in the "one good in the economy" situation the elimination of the substitution ability "is granted". For example, on a perfect market with ten producers of apples and ten producers of water, the consumer can still apply substitution in a rational and consistent manner. In conclusion, the whole neoclassical construct based on homogeneous goods raises some logical questions and enters in contradiction with one of the fundamental laws of economic theory, which is marginal utility.

The economic law of decreasing marginal utility forces the producers to engage in differentiating their goods. Thus, a new entrant will succeed to sell a supplemental quantity from the same kind of products already offered on the market, only if he is addressing to a part of the consumers which otherwise would remain sub marginal, either because, at the current price, under the equilibrium level, a demand quantity would remain unsatisfied, or because the sum of money offered by them would be under the minimum price accepted by the other sellers. In the second case we can already speak about a different economic good through more advantageous price conditions. (Costea, 2006, pp.113-114)

The peculiar nature of the assumptions from which the theory of competitive equilibrium starts, stands out very clearly if we ask which of the activities that are commonly designated by the verb <<to compete>> would still be possible if those conditions were all satisfied. (Hayek, 1958, pp.96)

If we attempt to explain the perfect competition model using realist scenarios, we could say that the possibility of existence of only one good in the economy denies the consumer preference. The model standardizes these consumer preferences and reduces their choices virtually to a single good.

Maybe one of the most important critiques to the pretention of perfect elasticity of the demand is advanced by Murray Rothbard. The *dean* of the Austrian school of economics considers that the permanent change in number of competitors and in quantities sold on market, will always keep the demand curve at a level which can't be perfectly horizontal.

If the producers attempt to sell a larger amount, they will have to conclude their sale at a lower price in order to attract an increased demand. Even a very small increase in supply will lead to a perhaps very small lowering of price. The individual firm, no matter how small, always has a perceptible influence on the total supply. In an industry of small wheat farms (the implicit model for "pure competition"), each small farm contributes a part of the total supply, and there can be no total without a contribution from each farm. Therefore, each farm has a perceptible, even if very small, influence. No perfectly elastic demand curve can, then, be postulated even in such a case. (Rothbard, 2004, pp. 721)

3. Maximizing profits on a perfect market

The perfect competitor, according to neoclassical perspective, is one who faces a constant price and demand for his good, or, in other words, he is a *price taker* in the sense that he can't alter the level of the market price. (Alchian and Allen, 1983, pp. 205) He can produce unlimited quantities of his goods and sell them at the same price as the other competitors on the market. But a stringent problem arises: which is the positive and negative limit to which perfect competitors can produce and, when can be profits maximized on a perfect market?

Neoclassical interpretations have lead to the following relation:

Marginal cost (MC) = Marginal revenue (MR) = price (P)

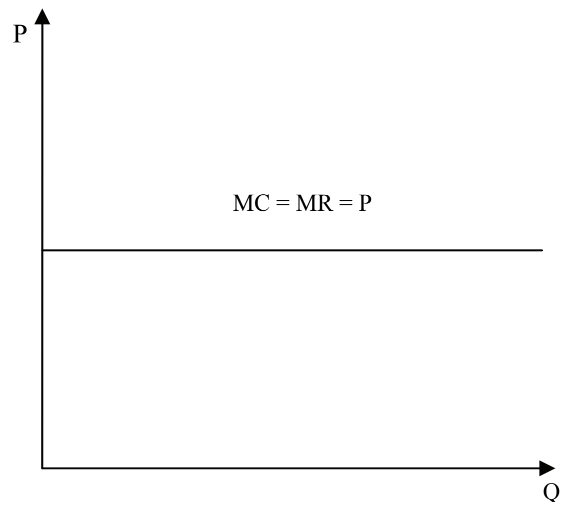

Fig. 2: Maximizing profits on a pure and perfect market

Alchian argues that:

Profits is maximized at that rate of output at which marginal cost and marginal revenue are equal – which, in the price taker's case, means they are equal to the unchanged price. (Alchian and Allen, 1983, pp. 208)

Logically, by using the theory of free competition, this problem would raise an important dilemma regarding the costs of staying in business with zero profits. In reality, any entrepreneurial activity is motivated by profit. The profit-making entrepreneurs are those who are remunerated for their correct assessment and interpretation of uncertainty. But if they have zero profits, why would they still produce anymore at all?

In this regard, the neoclassicists differentiated between two models of equilibrium for explaining the evolution to a perfect market or perfect competition model. (Baumol and Blinder, 1979, pp. 420-423; Samuelson, 1958, pp. 478-479) These are the short-term equilibrium model and the long-term equilibrium model.

Short-term equilibrium

Figure 3 places the competitive firm in equilibrium. It is a short-term equilibrium because and, as can be seen from the graph, the firm is still making profits.

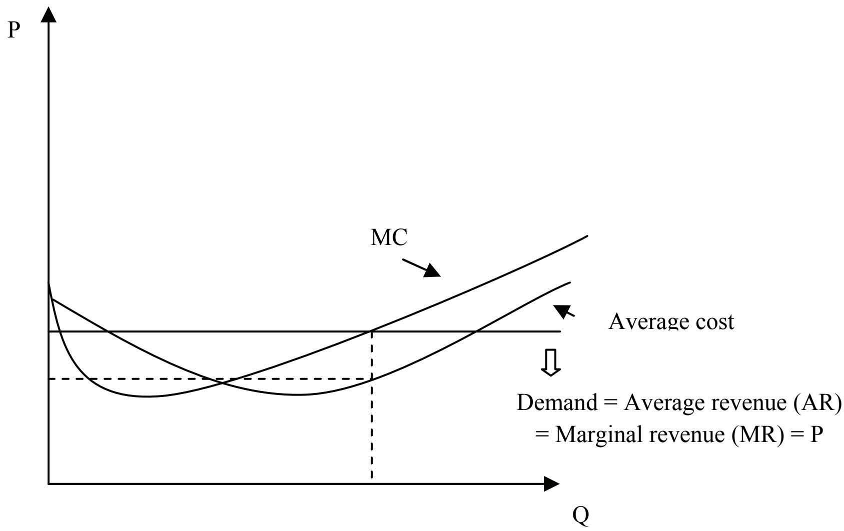

Figure 3: The competitive firm in short-term equilibrium

The firm is in equilibrium as the price equals marginal cost. The basic condition for the firm to continue activity is that average cost should always be under the marginal cost, or under the price. In other words, the firm can have profits up to the critical point (*break-even point*) where average cost is equal to marginal revenue, but also to the price. Until this break-even point, the firm can make profits equal to the difference between price and average cost (Profit = Price – Average Cost). This would mean that it can still differentiate itself from other firms on the market. In fact, the firm can change the consumer preferences.

Long-term equilibrium

This is a desirable state and perfect compatible with the model of perfect competition. If on short-term, the firm can still obtain profits, now, by virtue of free entrance on the market, the outside competitors, attracted by profits, enter this market, reducing them to zero. Figure 4 illustrates the zero profit firm.

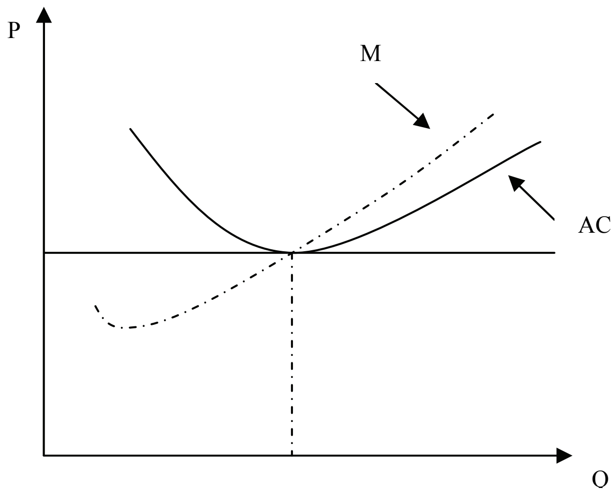

Figure 4: The competitive firm in long-term equilibrium (zero profit)

According to the neoclassical theory of perfect competition, in the long-term equilibrium under the pure competition, the firm must obtain zero economic profit (Baumol and Blinder, 1979, pp. 422) Is this assumption a realistic one? Analyzing the two above graphs, we could say that it is not impossible through the competition process for firms to have average costs up to the level of marginal costs and prices, meaning zero profits. This situation can appear as long as profits will exist (no matter how small). If on the market firms are still making profits, and if the entrance is free, then these profits will attract competitors from other markets. Once penetrating the perfect market, they will reduce the total profit for each firm. In this way, with any new entrance of a firm on the market, the individual profit of the other firms will tend to zero (because costs will reach the prices). In Figure 4, it can be noticed that the firm arrived at the point where profits are zero, in the sense that, from this point, any expansion of the supply can raise the costs above the price, leading to losses.

But what are these zero profits? According to the neoclassical theory, zero profit is a moment when for a firm is much more profitable maintaining its position on the market, than an exit. Or, at the level where average costs equals marginal costs and prices, an exit would imply a loss.

Returning to the lack of realism contained in the neoclassical model of perfect competition, we have to mention that a firm who arrives in the point of maximizing profits, where the profits are zero, from the perspective of free competition theory there are no sufficient reasons to continue activity. Also, the neoclassical theory does not bring explanations concerning the first of the competitors who will enter in the zero profit *area*. Theoretically, a firm which enters in the stages stipulated by the perfect competition model and anticipates that it is close to the zero profit *area*, will search for innovation methods like launching new products with different qualities that serve different needs, or will just reduce the price. The entrepreneurial logic is denied in the perfect competition world, and the arguments on which we base this critique are: the impossibility of the entrepreneur to form or change the price (he is only a *price taker*), the condition of homogeneity for products (which means that from the very beginning it is canceled the possibility of differentiation and, implicitly of innovation) as well as the necessity for him to operate at zero profits.

In conclusion, if we try to explain the perfect competition model using a realist scenario, we are trapped in a situation where entrepreneurial functions disappear.

4. Perfect information as a basic condition for the perfect competition model

Ludwig von Mises defines competition as:

One of the characteristic features of the market economy…is a social phenomenon. It is not a right, guaranteed by the state and the laws that would make it possible for every individual to choose ad libitum the place in the structure of the division of labor he likes best. To assign to everybody his proper place in society is the task of the consumers. (Ludwig von Mises, 1966, pp. 275)

Mises thus assigns a critical role to consumers. They are the *corpus* of society which by virtue of their power (to choose between different alternatives) are changing both the supply structure (and implicitly the number of competitors which is suited for a specific market) and the prices structure.

Hayek writes about competition that:

… it is essentially a process of the formation of opinion: by spreading information, it creates that unity and coherence of the economic system which we presuppose when we think of it as one market. It creates the views people have about what is best and cheapest, and it is because of it that people know at least as much about possibilities and opportunities as they in fact do. (Hayek, 1958, pp. 106)

Perfect information means the knowledge of every economic aspects of the past, present and future which have effects on the activity of competitors. To be valid, the assumption of perfect information must contain another assumption regarding uncertainty. It must be assumed that uncertainty is eliminated, because otherwise, the consumers would be in the position to choose different. The presence of uncertainty must necessarily lead to different ways in which entrepreneurs are anticipating the risks and opportunities, thus making them unequal in the eyes of the consumers. If only one speculative element would have existed on the perfect market, the entrepreneurs would surely try to gain from it, thus canceling the possibility of price and profits remaining constant.

Mises states that the uncertainty element can't be separated from human action. In his words, the idea that an individual acts in conditions of certainty would be nonsense, because:

The uncertainty of the future is already implied in the very notion of action (...) if man knew the future he would not have to choose and would not act (Mises, 1966, pp. 105)

If we analyze the assumption of perfect information with the tool of free competition theory, we arrive at the conclusion that by using this assumption, the perfect competition model abandons the principle of uncertainty – which is universal in a world of human action – and, in consequence, the idea of action. In the perfect competition model, competitors do not act anymore, but they only follow the steps of an engineering system.

As a process, competition implies the discovering through economic calculation of the least expensive way to anticipate and satisfy consumer needs, and thus, to obtain profits. This statement can totally be reduced to the idea of action. Entrepreneurs act for profit. Without action competition would be no more a causal process, in the sense that the cause (correctly anticipating the uncertainty) is completely lost. If uncertainty is abandoned we are forced (by logic) to also abandon action. And the abandonment of action, a concept naturally implied in the process of competition, leads to an inconsistent concept of competition.

5. Conclusions

As we could see, the perfect competition model describes a world where entrepreneurs and consumers (the *essential agents* of competition) don't act. This conclusion derives in the first place, from the assumption concerning the inability of entrepreneurs to have impact on price, second from the so-called indifference of consumers in buying goods (the homogeneity condition) and third from the absence of uncertainty. On a free market, the concept of action can't be separated from that of price or choice. If we operate with the principle of realism, the market is a place where "the position of the most profitable entrepreneur" is disputed. In this sense, the entrepreneurs' prices and consumer preferences are the guarantees that that market still functions according to universal scarcity condition and demonstrated preference of consumer (and not indifference). Furthermore, the concept of action can't be separated from that of uncertainty, since we accept that the former implies the latter. Moreover, we could argue that taking into consideration the natural inseparability between action and uncertainty, the assumption of perfect knowledge (equivalent with absolute certainty) mixed with elements that describe actions (the firms are competing and can eliminate each other, the profits are zero etc.) is a form of contradiction. Thus, action *qua* concept becomes operational only if the uncertainty element is a part of it, and non operational if the premise of its applicability is certainty.

The world of perfect competition is just not compatible with the real world where conditions described above (prices, heterogeneity, uncertainty etc.) induce the impulse to act. As we could see, there are alternative views by which we can judge the process of economic competition. The one chosen here is free competition theory, a model best described by the Austrian school of economics and which we think that contributes to a realistic interpretation of competition. It shows that from this perspective - which is the perspective of free competition - neoclassical perfect competition model may not be helpful when analyzing real markets or entrepreneurial actions. But given the well known fact that the positive law concerning competition (antitrust regulations) contains explicit neoclassical assumptions, a stringent intellectual problem remains unsolved. It regards the obscure consent on the opportunity to use these assumptions when dealing with real entrepreneurs and consumers. A quick look through the academic debates concerning the issue of competition will reveal that there is no such consent, but on the contrary, a continuous strengthening of positions.

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THE CHANGING POLITICAL ECONOMY OF PROTECTIONISM

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Abstract

The paper aims to identify the peculiarities and some of the implications of global protectionism associated with the financial and economic crisis of 2008-2009, from both a quantitative and a qualitative point of view. The approach is based on a political economy perspective rather than an econometric one, and starts from the assumption that globalization and specifically the global production networks are responsible for a moderate increase of protectionism in correlation with new forms of protectionism (such as financial protectionism or protectionism related to the utilization of natural resources). The analysis brings the authors to the conclusion that due to the continuing process of globalization as well as the more explicit presence of regional and world governance in the short and medium-term perspective, traditional trade protectionism is not going to increase. Nevertheless, other forms of protectionism initiated by transnational corporations might become manifest.

Key words: globalization, protectionism, global production networks

JEL Classification: F01, F02, F23, F59

Political economy and economics – "What's in a name?"

The current crisis that started in 2008 and may last, at least in the Euro zone, for another decade according to a recent statement by German Chancellor Angela Merkel[1], brings into the forefront not only some long-term overdue structural issues of the post–WWII development paradigm, but also some subtle changes in economic terminology. These changes include an apparent return to the classical notion of "political economy" instead of a more objective one, like "economics" or "economic science". But we can ask ourselves, in the same way as Shakespeare did: "What's in a name?"[2] The answer in our case is that, as George Friedman remarked[3], classical economists like Adam Smith and David Ricardo never used the term "economics" but always that of "political economy" for the simple fact that they did not

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1 Annika Breidthardt, Germany's Angela Merkel: It Will Take a Decade to Turn Around the Euro Zone, November 11, 2011, http://www.huffingtonpost.com/2011/11/05/german-chancellor-angela-_n_1077696.html.

2 The whole quotation: "What's in a name? That which we call a rose / By any other name would smell as sweet.", William Shakespeare, Juliet in Romeo and Juliet (II, ii, 1-2).

3 George Friedman, Global Economic Downturn: A Crisis of Political Economy, August 9, 2011, http://www.stratfor.com.

conceive politics without economics, and economics without politics. In other words, according to the classical approach, the motivations and behaviour of economic agents could not be separated from the political system in which they were embedded, with the political system being permanently modified by the economic realities.

The term economics tends to convey an entirely objective sense, and this term correlated with the heavy use of econometrics made a vast majority of economists to forget that economic science is part of the social sciences, i.e. of "soft sciences", and not "hard sciences", such as mathematics and physics.

Why is all this so important in understanding the current crisis and its implications in the field of protectionism?

Our answer is that in order to understand the current state of the world economy and its future trends, we have to take into consideration the non-linear behaviour of human beings, the not always rational character of economic agents (which is usually assumed) and the prevalence of individual and group interests over the abstract interest for the common good of humankind.

This being said, we intend to put into perspective the practical aspects of globalization from the point of view of the above mentioned individual and group interests. Based on this, we are then going to explain why despite the significant dimension of the current economic crisis, it did not lead to an equally significant increase in the level of protectionism.

Globalization – a pragmatic approach

Table 1 provides a snapshot of globalization and its implications, including both production and trade.

Table 1: Globalization of production and trade – the role of TNCs

Indicator	Value at current prices in 2010 (billions of US $)
Nominal Gross World Product	61,960
World exports of goods and services	18,902
World sales of TNCs' affiliates	33,000
World exports of TNCs' affiliates	6,239

Sources: Data compiled by the authors from IMF, WTO, and UNCTAD databases.

Data in Table 1 shows that world sales of TNCs' foreign affiliates (meaning in fact FDI) represent over 50% of the nominal value of gross world product and 1.74 times more than the value of world exports of goods and services.

The interpretation of these figures and proportions is that nowadays over 50% of everything that is produced globally is produced by TNCs (through their foreign affiliates located in another country than the country of origin of the mother company). At the same time, global sales of TNCs' foreign affiliates represent almost twice the value of world exports of goods and services. This latter observation does not mean in any way that exports are to disappear any time soon, but points to the fact that increasingly producers are relocating their production capacities in accordance with the presence of their solvable consumers. The economic importance of foreign affiliates of TNCs is further strengthened by the fact that they generate more than 1/3 of world exports of goods and services.

This being the case, it becomes clear that in the present-day world economy we can speak (in a majority of cases) primarily about global or distributed interests of some global players (that is, TNCs), and only secondarily about national or local interests (mostly in the case of states that represent world or regional powers).

And it is just this perspective that puts the question of protectionism in a new light. Because in this context the questions becomes: **"Who seeks protection from whom?"**

Who is going to raise protectionist requests when, for instance, Volvo from Sweden is owned by the Chinese company Geely, or Land Rover from Great Britain is owned by the Indian company Tata Motors, or the US company Chrysler is owned in proportion of 53.5% by the Italian company Fiat? Who is going to ask for protection in a country like Romania where the production of steel, cement, automobiles, beer or dairy products is owned completely or to a very large extent by foreign investors?

These statements should not be interpreted in an absolute way. Indeed, there are still some local producers in all countries of the globe, and some of them are big enough to raise protectionist claims. But in most instances protectionist claims are either limited or expressed rather by TNCs themselves, in which case the host country government is just a vehicle for defending global corporate interests.

Globalization makes protectionism difficult not only because of foreign ownership. The case of protectionism is also seriously affected by the very intricate web of parts and components made in many corners of the globe that find their place in the final products, be they electronics, vehicles or others. A very good example in this context refers to the US trade trade deficit in iPhones (Table 2.). It is easy to extrapolate this situation to automobiles, computers or electronic devices, in general.

Table 2: US trade balance in iPhones, in 2009 (million US $)

	China	Japan	Korea, Rep. of	Germany	Rest of world	World
Traditional measure	-1,901.2	0	0	0	0	**-1,901.2**
Value added measure	-73.5	-684.8	-259.4	-340.7	-542.8	**-1,901.2**

Source: Maurer, A. (2011), Made in the World, Trade in Value Added: What is the Country of Origin in an Interconnected World? WTO Global Forum on Trade Statistics, 2-4 April 2011, Geneva.

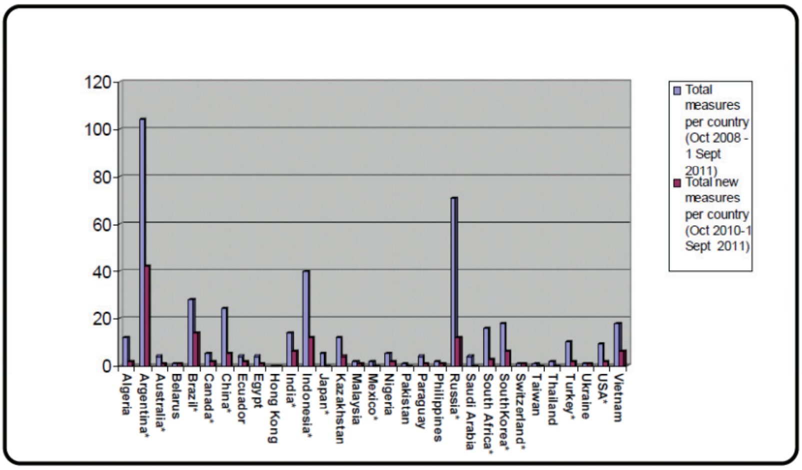
The table is very suggestive of the fact that international production networks call for a completely new measuring methodology based on value added for a more accurate assessment of trade. Trade in value added is likely to challenge not only traditional statistical concepts (such as, "country of origin" or "resident *versus* non-resident"), but it will also have a major impact on trade policy issues (e.g. trade disputes and anti-dumping measures), including trade negotiations. Who produces for whom or who should be protected against whom, judged so far on the basis of trade figures recorded gross, will be put in the right context, in conformity with the sheer realities.

The crisis and protectionism – some facts and figures

The outbreak of an almost global crisis in 2008 raised at that time the fear that the crisis situation will lead to an increase of the number protectionist measures and that such an increase would affect international trade and further aggravate the crisis.

However, the reality was far from such a pessimistic scenario even if some increase in the number of protectionist measures took place, indeed. **Figure 1** provides a combined presentation of the total number of protectionist measures per country in force between October 2008 and September 2011 and the total of new measures per country for the same period of time.

Figure 1: Potentially trade restrictive measures, by country, since October 2008



Source: Eighth Report on Potentially Trade Restrictive Measures - October 2010-September 2011, European Commission Trade, Tradoc_148288.pdf

According to the graph, higher number of protectionist measures were to be found only with a small number of countries (Argentina, Russian Federation, Indonesia, Brazil and China), and even for these countries there were no great numbers of new protectionist measures (with the exception of Argentina). The distribution of the "potentially trade restrictive measures"[4] by country is of importance, as out of 424 measures in force since October 2008 104 were implemented by only one country (Argentina) and 71 by the Russian Federation,

[4] These are the exact words of the European Commission in the source document. We point out the fact that the studies refer to potential and not to real adverse effects on international trade.

while for the same period of time USA enacted 7 measures, Japan 5, Canada 5. A detailed presentation of the number and type of measures is given in Table 3.

Under these circumstances, we may rather speak about individual, specific cases and not about a world-wide phenomenon. We can also note that the majority of the measures were border-barriers initiated by a relatively small number of countries that had circumstantial conditions. At a large distance from border-barrier measures, we can find stimulus and other measures which are specific during a crisis period as the private sector is seeking assistance from governments.

Table 3: Potentially trade restrictive measures, per country and type of measure, in force since October 2008

Country	Border barriers	Behind-the-border measures	Government procurement	Services and Investment barriers	Export restrictions	Measures to stimulate exports	Stimulus and other measures	Total measures per country
Algeria	2	3	2	3	1		1	12
Argentina*	101		1	1	1			**104**
Australia*			3	1				4
Belarus					1			1
Brazil*	11	1	5	1	1	5	4	28
Canada*		1	2				2	5
China*	1	3	4	4	1	1	10	24
Ecuador	2	1	1					4
Egypt	1			1	2			4
Hong Kong								0
India*	3	2		1	4	3	1	14
Indonesia*	11	10	4	12	3			**40**
Japan*		1				1	3	5
Kazakhstan	1	1	2		5	2	1	12
Malaysia					1	1		2
Mexico*							2	2
Nigeria	3		1	1				5
Pakistan					1			1
Paraguay	3		1					4
Philippines						2		2
Russia*	49	3	2	3	4	2	8	**71**
Saudi Arabia	3						1	4
South Africa*	7		3	1			5	16
SouthKorea*				1		3	14	18
Switzerland*						1		1
Taiwan						1		1
Thailand				2				2
Turkey*	1	2	1	1	2		3	10
Ukraine					1			1
USA*	3	1	1	1		1	2	9
Vietnam	7	6	1	1	1		2	18
Total measures by type	**209**	**35**	**34**	**35**	**29**	**23**	**59**	**424**

* G20 countries

Source: Eighth Report on Potentially Trade Restrictive Measures - October 2010-September 2011, European Commission Trade, Tradoc_148288.pdf

What is clear, is that despite the increase in the number of protectionist measures, the world economy has not been affected in any important way. This assertion can be easily sustained by the following facts:

- World GDP increased in 2010 by 5% over the previous year and it is expected to increase in 2011 and 2012 by 4%.[5]
- World exports recovered in 2010 what they lost in 2009 (an increase by 14.5% in 2010 over 2009, which could offset the 12% decline in 2009) [6]; global FDI flows increased in 2010 by 5%, although they are still under the 2007 peak level.[7]

The simple interpretation of the above indicators is the following: if during the same period of time we witness, on the one hand, an increase in the number of protectionist measures (and the key issue here is that we speak about the number of protectionist measures, and not about their impact) and on the other hand, an increase of world GDP, world trade and world FDI, then the only conclusion is that the effect of the said protectionist measures is practically not significant.

Anyway, the fear of a resurgence of protectionist measures made WTO, OECD, the European Commission, G-20 or independent organizations such as Global Trade Alert (GTA) to monitor the phenomenon at global level. The results obtained from monitoring are diverse according to the organization that did the measure and interpreted as a whole (for the period November 2008 – September 2011) they are somehow mixed. The mixed character derives from the fact that while the number of protectionist measures increased, they did not significantly affect trade.

What is clear is that in 2009 (the peak year of the crisis) the protectionist measures affected only 1% of trade in goods and even less in the case of trade in services. At the same time, although the number of new antidumping investigations increased by 15% from mid-2008 to mid-2009, they affected only 0.4 % of USA and European Union imports.[8]

More recent data produced jointly by WTO, OECD and UNCTAD indicate that the cumulative share of world trade affected by new trade restrictions since the start of the financial crisis in 2008 was of over 2% by mid October 2011[9] which represent an increase but the level is still marginal and the general trend of the world trade is ascendant.

Moreover, WTO statistics had shown a considerable slowdown in trade defense activities since 2008, with new investigations declining both in 2010 and 2011[10]. Therefore, contrary to common sense beliefs the crisis situation has not led to a

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[5] Eighth Report on Potentially Trade Restrictive Measures - October 2010-September 2011, European Commission Trade, Tradoc_148288.pdf.
[6] Idem.
[7] World Investment Report 2011, UNCTAD, New York and Geneva, 2011.
[8] Fredrik Erixon, Razeen Sally - Trade, Globalization and Emerging Protectionism since the Crisis, ECIPE Working Paper No. 2/2010.
[9] Reports On G20 Trade And Investment Measures (May To Mid-October 2011), WTO, OECD, UNCTAD, October 25, 2011
[10] WTO (2011), Report on G-20 Trade Measures (May to mid-October), 25 October 2011, Geneva

significant increase in the use of trade defense measures such as anti-dumping, countervailing duties and safeguards.

Protectionism in the world economy of today – what are we talking about?

As we are going to show below, we have to ask again ourselves, as we did at the very beginning: "What's in a name"? In this case, the question refers to what we include under the generic name "protectionist measures".

Traditionally, protectionism referred to "Government actions and policies that restrict or restrain international trade, often done with the intent of protecting local businesses and jobs from foreign competition. Typical methods of protectionism were import tariffs, quotas, subsidies or tax cuts to local businesses and direct state intervention".[11]

After the onset of the crisis some of the monitoring institutions, for various reasons, decided to broadly extend the scope of protectionist measures, but this extension in correlation with the intrinsic characteristics of globalization made things quite unclear. For instance, researchers from the GTA[12] include bailouts/state aids as well as announced but not yet implemented measures in their data base. Such a broad interpretation led to the count of an impressive number of protectionist measures, that is about 1,100 measures active in September 2011).[13]

Bailouts as a form of protectionism

The inclusion of bailouts in the area of financial services, automobile industry and other sectors is highly debatable, in our opinion, because the money provided by various governments to their ailing banks or car makers was not aimed at protecting them from competition, but rather at preventing the respective economies from spiralling out of control. In the case of such large bailouts, attaching certain limitations to the operation of the assisted companies is apparently logical and automatic. A government is putting money into a large bank or a large automotive company in order to prevent a large-scale impact on the respective economy as result of imminent insolvency or bankruptcy. Until the money is paid back by the respective companies following the implementation of some revitalization plans, the respective amounts cannot be used for other activities or transferred abroad. This may sound like protectionism and may look like protectionism, but we may argue it is not.

Industrial policy related measures

A salient feature of governments' responses to the crisis was their primary focus on domestic policy rather then trade policy. Domestic government interventions, particularly in capital and product markets, were related to two key areas: large-scale

[11] http://www.investopedia.com/terms/p/protectionism.asp#axzz1eEoP26BE
[12] Simon J. Evenett, Resolve Falters as Global Prospects Worsen: The 9th GTA Report, Centre for Economic Policy Research, July 2011.
[13] Brent Radcliffe, 8 Biggest Global Trade Offenders, October 20, 2011, San Francisco Chronicle, www.sfgate.com.

bailouts and subsidies, and fiscal-stimulus packages, usually combined with loose and unorthodox monetary policies.[14]

Such measures have led to a change in the perception of protectionism: from border measures to non-border measures which is somehow equivalent to a change from trade-related measures to economy-wide measures. In this new context, the broad sense of protectionism does not refer to trade protection, but to economy protection, particularly in the case of emerging economies, such as some of the BRICS, or countries like Argentina. In all these circumstances, the broad sense of protectionist measures is related to industrial policies, and can be seen as an adaptation of these emerging economic powers to their new global role.

Financial protectionism

A new form of protectionism is emerging, although it is too early to define it properly: financial protectionism or financial mercantilism.[15] This new form of protectionism was mentioned in a reference contribution issued by the Research Unit of the Bank of England, and was defined as "the preference of banks to lend money at home (that is, in the country of origin of the home bank) at the expense of foreign affiliates of the home banks".

The confusing aspects refer to the fact that such practices were recorded but they were decided by the banks themselves (due to various vulnerabilities of the mother banks) or by the governments of the countries where the home banks were located in case the respective banks were nationalized or heavily supported in order to avoid bankruptcy. In our opinion, in such cases we cannot treat as similar two very different circumstances: protection from competition in case of classic protectionism and rescue in case of imminent risk of bankruptcy.

An opposite example for the role of home governments can be found in Romania. In March 2009, foreign banks operating in the Romanian banking sector (and which account for 70% of the total banking sector assets), committed under the umbrella of international organizations and representatives of their home country governments to maintain their exposure in the Romanian market.[16] Hence, this time, the home country governments acted in the sense of preventing the private actors to behave in a protectionist manner, according to the proposed definition mentioned above (although the sense of protectionism here is rather different from the classic one).

Protectionism related to the activity of state owned TNCs

The rising role of BRICS in the world economy has been accompanied by the emergence of a new type of transnational corporations – the state owned TNCs. According to UNCTAD, in 2010 there were 650 state owned TNCs with about 8,500

[14] Fredrik Erixon, Razeen Sally - Trade, Globalization and Emerging Protectionism since the Crisis, ECIPE Working Paper No. 2/2010.

[15] Andrew K Rose, Tomasz Wieladek - Financial Protectionism: the First Tests, Discussion Paper No. 32, External MPC Unit of the Bank of England, May 2011.

[16] Financial Sector Coordination Meeting on Romania, March 26, 2009, International Monetary Fund Communiqué, http://www.imf.org/external/np/cm/2009/032609.htm.

foreign affiliates. While they represented about 1% of the total number of TNCs, they accounted for 11% of global outward investment flows.[17] The presence of state owned TNCs raised some fears and apprehensions in the host countries which enacted some restrictive and defensive regulations in order to protect certain aspects related to their national security.

Again, in this specific area, we have a significant departure from the classic situation in which a state might aim to support companies from the respective country in their competition with foreign firms. Under these new circumstances, we have a state that is trying to limit the influence of other states on its territory manifested by means of state owned companies belonging to the foreign state. It is, indeed, a complicated situation, particularly when the foreign state is based on a centrally planned system (the case of China) or belongs to a distinct cultural system in comparison with the West (the case of Arab countries).

Other protectionist measures

The crisis raised a number of challenges to the governments in developed and developing countries, but these challenges are different. In the developed economies, in certain cases the banks had to be rescued or some private industrial companies. In election years (like 2012), jobs have to be preserved and the citizens have to be reassured that migrant workers will not take their jobs. When state owned TNCs want to buy assets in sensitive sectors (such as energy, transportation, banking or agriculture), the governments may also raise national security issues.

In the developing economies, the possibilities of governments to enact protectionist measures are limited by their financial availabilities. Therefore, in this group of countries we differentiate between emerging economic powers and the rest of countries. The latter countries react as followers. The emerging economic powers, on the other hand, want to assert their position, and therefore consolidate local industries that are large enough to compete internationally, but still not on par with their counterparts from developed countries.

Quite often, another type of protectionist measures may appear: the use of standards (or technical barriers). Here, governments act frequently as a result of lobby activity. Therefore, all countries need a much clearer regulation of lobby activity in order to prevent the "confiscation" of the state by the large corporations that are tempted to use some "monopolistic" position, at least for a period of time.

A particular situation refers to natural resources. In this sector, a new phenomenon is emerging in 2011 (and is expected to continue in 2012), namely resource nationalism. Due to the crisis situation, many governments are looking to control budget deficits and get more revenues. And one available solution seems to be the increase of taxes and royalties related to mining activities, together with enhancing local participation in projects[18] or even nationalization of resources.[19]

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[17] World Investment Report 2011, UNCTAD, New York and Geneva, 2011.

[18] Ernst and Young, Business Risks Facing Mining and Metals 2011 – 2012, World Finance Review, September 2011.

Among the countries that already initiated or are in the process of implementing such measures are: South Africa, Zambia, Ecuador, Australia, Guineea, Zimbabwe. In the long term, the trend towards nationalization of resources represents a bigger risk, given the increase of population in many developing countries and the demands for better living standards in these countries.

Conclusions

The world economy is going through a period that witnesses both a repositioning of world economic powers and the search for a new development paradigm. Since the 1990s, a number of really significant phenomena were recorded:

- The world ceased to be bi-polar and moved to a uni-polar structure, with the United States of America as the superpower. Currently the world economy is gradually shifting towards a multi-polar strcuture.
- The emerging economies, with the noted presence among them of the BRICs (Brazil, India, Russia, India and China) which became in 2011 BRICS (through the addition of South Africa) gradually increased their position in world trade and world FDI flows.
- China acquired the status of the second largest economy in the world, and passed Germany as the world's top exporter.
- The crisis that started initially as a financial crisis turned subsequently into an economic crisis: it is actually a crisis of the postbelic Western development paradigm.
- World population reached 7 billion inhabitants in 2011, and is expected to exceed 8 billion in 2030.

If we were to take into account only the above mentioned aspects (and there are much more than that) we could easily conclude that a new world order is an objective necessity.

We do not discuss or propose here a certain world order, we just point out that given the magnitude of the above mentioned changes a new world order that will take into account all these changes is necessary.

Again, given the complexity of the world economy and the level of interdependence induced by globalization, such a new world order can not be designed or implemented in one step. A decade or even more may be necessary for experimenting, negotiating, testing and hopefully reaching a stable new paradigm of development and international relations.

During this *interregnum* period, some of the old actors are replaced by new ones and the remaining actors are no longer the same (just think about what is going on with the European Union or the changing position and role of the US). Various interests are to be manifested and harmonized and some of the actors even have to discover what their interests really are.

[19] Fon Mathures, Resource Summit Predicts Dangerous Future Trend towards Nationalization, World Economic Forum's Resource Summit, September 15, 2011.

During such a period, protectionism is obviously present, however not in a mercantilist sense, but rather in a global sense. Protectionism has to be seen at a number of levels:

- Crisis-induced protectionism (when the state is assisting industries in difficulty and takes measures to secure the rebalancing of assisted companies and to prevent government money from going abroad). This is supposed to be temporary and limited. Given the multilateral rules and disciplines of the WTO and the web of preferential (bilateral and regional) trade agreements as well as the intrinsic characteristics of globalization, this type of protectionism cannot extend to a large scale in time and space.
- Protectionism generated by emerging economic powers (BRICS and others). This type of protectionism is also limited in time, and is likely to last just until the new powers negotiate a relatively stable position for themselves within the new world economic order.
- Protectionism related to some rare resources (the case of rare earths, for instance, which include seventeen chemical elements). This is also likely to be limited in time, till the new technologies will allow for a relatively fast replacement of the true rare substances with more abundant ones. A good example is provided by China's export restrictions imposed on rare earth metals; as the country accounts for 94% of world production, these measures have initially triggered a sharp increase in prices, followed by a major decrease both in demand and prices.
- Protectionism related to securing jobs for local subjects. Such measures can be found at present in some of the member states of the European Union, even in relation to other European citizens, as defined by The Treaty on the Functioning of the European Union.[20] But such measures cannot resist, at least in the European Union, for a simple reason: the demographic problem or the so-called aging population problem.
- Protectionism related to measures on public procurement, foreign investment or standards. This again is temporary, because in many countries the presence of foreign investors is so substantial that the functioning of the economy is not anymore conceivable in the long term without foreign capital.
- In contrast to all the types of protectionism mentioned above, protectionism related to resource nationalization is a risk for the longer run. According to an interesting comparison made by Sir Mohammad Jaafar[21] in 2030 we would need the equivalent of three Earths in resources to guarantee the European living standards for everybody, and the equivalent of five Earths in resources to ensure the US living standards. In order to limit the risk of this type of protectionism, a real time race

[20] Consolidated Version of The Treaty on The Functioning of the European Union, Official Journal of the European Union C 83/47, 30.3.2010.

[21] Fon Mathures, Resource Summit Predicts Dangerous Future Trend towards Nationalization, World Economic Forum's Resource Summit, September 15, 2011.

should take place between the increase in demand for resources and the results from research and innovation to provide alternatives.

The magnitude of the problems related to the crisis, the demographics, the climate changes and so on, is so huge that it requires more coordination among all participants. The idea of global or regional governance is already manifest and we expects it to grow in the coming years. We already have G-20 (instead of G-7 or G-8) at the global level, and we have the discussions and debates related to a new European Union, more politically integrated.

Under these circumstances, we may expect a lot of temporary protectionist measures, however with a limited impact on the world economy. In the words of some often cited authors, the medium if not the long-term perspective, will be characterized by a "murky"[22] and "creeping"[23] protectionism. But as long as these forms of protectionism are affecting only 2% of world trade, we remain optimistic.

We may be less optimistic as far as resources are concerned, but we do hope these are still substantial and that science and technology may lead us all to a real sustainable development.

[22] Richard Baldwin, Simon Evenett - Murky Protectionism Threatens Global Economic Recovery, Yale Global, 13 March 2009.

[23] Fredrik Erixon, Razeen Sally - Trade, Globalisation and Emerging Protectionism since the Crisis, ECIPE Working Paper No. 2/2010.

EUROPEAN PRIVATE COMPANY: A NEW INSTRUMENT FOR DOING BUSINESS IN EUROPEAN UNION?

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Abstract

Designed as a real European company, with a minimum registered capital of EUR 1, largely accessible, easy to organize and cheap to run, the European private company is to represent a significant reform in the matte of company law in the European Union.

Without doubt, the adequacy of the European private company statute to the legal traditions of all member states is an important factor of its use by the foreseen beneficiaries: small and medium enterprises.

The advanced stage of the political procedures and negotiations related to the statute impose the analyzing of all the main features of the European Private Company, marked out in official documents and their comparison to those of the companies regulated in Romania and on other member states of the European Union, in order to determine the extent such new company shall represent or nor a new and effective instrument for doing business in the European Union.

Keywords: *European Private Company, company, transfer of the registered office, capital, cross-border element, single market, SME*

JEL Classification: K10, K20

I. Preamble

Without doubt, the differences amongst domestic laws and the diversity in the types of trading companies represent barriers for the development of the single market so that there is the possibility to remove, by a type of company regulated by legal uniform rules, adapted to the needs of small and medium enterprises, the difficulties such entities encounter related to the operation costs, and to lead to the development of their cross-border activities.

Additionally, the statistics indicate that more than 40% of the SMEs in the European Union might develop their cross-border activity but claimed that they lack in the needed instrument[1] as the existing transnational companies: European Economic Interest Group (EEIG), the European Company or the European Cooperative Society (SCE)[2] do not grant a proper type of SMEs[3].

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1 KPMG survey presented at BusinessEurope's SME Action Day on 21 November 2007;

2 See respectively Council Regulation (EEC) 2137/85 of 25 July 1985, Council Regulation (EC) 2157/2001 of 8 October 2001, Council Regulation (EC) 1435/2003 of 22 July 2003;

3 According to a general EU definition , small and medium sized enterprises are those with less than

In order to create such a company, the European Commission drafted a study for the feasibility of the European statute of the small and medium enterprises (PME –“Les petites et moyennes entreprise”).

On the grounds of the Communication of the Commission to the Council and Parliament from May 21, 2003: “Modernization of trading companies’ law and strengthening of corporative management in the EU. A plan to advance”[4] and of the Commission Report for legal businesses of the Parliament in 29.11.2006[5], the European Parliament enacted on February 1, 2007 the Resolution which included the recommendations of the Commission regarding the statute of the European private company and the request for the Commission to present, during the year of 2007, a bill according to the recommendations of the Parliament.

In such background, *in June 2008, the European Commission presented in front of the Council a proposal for a Regulation (hereinafter the Regulation) for the Statute of the European Private Company (Societas Europaea hereinafter the EPC).*

The proposal was made on the grounds of art.352 in the TFUE (article 308 EC Treaty) with the significance that, in order to pass it, they needed the approval of all the 27 Member States of the European Union and, the unanimity was difficult to obtain.

As a consequence of the consultation, the European Parliament approved, on March 10, 2009, the proposal with amendments, adopted a law resolution[6] *and indicated the Commission to alter its proposal accordingly.*

The revised wording of the regulation of the Council regarding the statute of EPC was in its final step to be passed, as indicated in the document of the Council DRS 84 SOC 432 from May 23, 2011[7] following, shortly after, to conclude a final political agreement.

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250 employees. Within this category the following sub-categories are distinguished as per Commission recommendation 2003/361/EC: (i) Medium-sized enterprises [headcount <250 and turnover ≤€ 50 million and/or balance sheet total ≤€ 43 million]; (ii) Small enterprises [headcount <50 and turnover ≤€ 10 million and/or balance sheet total ≤€ 10 million] Micro enterprises [headcount <10 and turnover ≤€ 2 million and/or balance sheet total ≤€ 2 million]; (iii) Micro enterprises [headcount <10 and turnover ≤€ 2 million and/or balance sheet total ≤€ 2 million];

4 Communication of the Commission to the Council and Parliament from May 21, 2003 entitled: *“Modernization of the law of trading companies and strengthening of corporative governing in the EU. A plan to go ahead”,* COM(2003)284, celex:52003DC0284;

5 Report from November 29, 2006 of the Commission for legal business of the European Parliament, containing as well regulations to the European Commission related to the statute of the European private company and proposal for the Resolution of the European Parliament in such direction [2006/2013 (INI)] rapporteur Klaus-Heiner Lehne, stage of procedure: A6-0434/2006; This report is based on a regulation draft regarding the statute of EPC jointly promoted by MEDEF and CCIP; http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//NONSGML+REPORT+A6-2006-0434+0+DOC+PDF+V0//EN&language=EN;

6 European Parliament legislative resolution of 10 March 2009 on the Proposal for a Council Regulation on the Statute for a European Private Company, P6_TA(2009)0094; available at <<http://www.europarl.europa.eu/sides/getDoc.do;jsessionid=3A6D2E4B375D4F87B4AF504459 A78D53.node2?pubRef=-//EP//TEXT+TA+P6-TA-2009-0094+0+DOC+XML+V0//EN>> (last seen November 12, 2011);

7 DRS 84 SOC 432 from May 23, 2011, available at:

In the current configuration, EPC presents the features of a real European entity, the project (inspired from French simplified shares corporation - SAS) having a coherence different from that regarded for the European company, meaning that it creates an autonomous statute in relation to the European domestic law.

We proposed by this paper to analyze the main features of the European Private Company marked out in official documents, to compare them to those of other European companies but as well to those of national companies, in order to determine the extent such new company shall represent or not a new and effective instrument for doing business in the European Union.

II. Features of the European Private Company

As indicated, the premise of EPC regulation consists of the fact that the diversity of limited liability companies in the member states generate a lack of flexibility and, in case of groups of companies, it makes difficult the development and optimization of the activities of their branches in other states of the European Union. The parent company is compelled to establish each branch in another type in each and every member state where it is established, branches to be object of different legal regimes.

Additionally, the costs for the initial establishment and development of limited liability companies are presently significant and regard not only the registered capital and the costs for consultancy, drafting and authentication or certification of articles of association.

According to a study conducted in 2008 by Baker & McKenzie for the German company association VDMA, these costs taken globally are estimated to average around €1300 for small companies (21)[8]

The total of the above costs on the creation of a company, including capital, can run up to levels that can deter from company formation in some markets. The Baker & McKenzie study, for example, estimates that a total of €28,550 would be required in Belgium, €20,500 in the Netherlands, or € 16,500 in Italy, to set up a small company[9].

Seeing that the European private company refers to small and medium enterprises (without imposing any such restriction, the large companies and the

<< http://register.consilium.europa.eu/pdf/ro/11/st10/st10611.ro11.pdf>> (last seen on November 11, 2011);

[8] Based on the presentation by Kristina Schunk, legal consultant at Schunk GMBH&CO. KG, held at the public hearing before the Legal Affairs Committee ofthe European Parliament in Brussels, 22 June 2006, on the European Private Company, published in European Company Law, December 2006, vol. 3, issue 6;

[9] Impact assessment, Working Document accompanying the Proposal for a Council Regulation on the Statute for a European Private Company (EPC), {COM (2008) 396}, {SEC (2008)2099}, Brussels SEC(2008)2098; available at:
<< http://ec.europa.eu/internal_market/company/docs/epc/impact_assesment_en.pdf>>;

groups may also be beneficiaries of the Regulation) it is established under the same conditions in any other member state, is simple and flexible by allowing the associates to decide as many aspects as possible, assuring, in the same time, a high level of legal certainty for the associates, creditors, employees and third parties, in general.

Based on such realities, the essential aspects of the organic statute of EPC, they desire to remove the largest part of such current issues from the matter of national and cross-border limited liability companies.

1. Governing Law

Law applicable to EPC represented one of the most difficult issues of the regulation draft.

Article 4 of the Regulation establishes the applicable right of EPC, organic statute of which shall be governed first of all by the provisions of the regulation and, secondly, by the provisions of the article of association of EPC, creating by it a shield to the application of the Member States' law[10].

The associates, *based on the free will principle and on the provisions of art.4 from the Regulation, can insert as well in the articles of association provisions related to the aspects listed in Annex I of the Regulation* (additionally to the compulsory content of the articles of association established by art.8 in the Regulation).

The aspects included in Annex I of the Regulation are a lost (there are more than 40 positions), and mainly regard the internal organizing of the EPC.

Nevertheless, the *Regulation does not offer the EPC a total autonomy of the legal regime* but, the provisions of the domestic law of the company only applies in case of the aspects expressly mentioned by the regulation. The national law of the company or the domestic applicable law is the law of the Member State where the EPC records its registered office.

Third of all, *the aspects uncovered (unregulated) or partially covered by the regulation and by its Annex I, as well as in case of aspects included in Annex I but not contained in the articles of association, they are object of the laws passed by the member states for applying the regulation and, in default, the provisions of the law applicable to the company.*

The method to nominate the aspects regulated by the domestic law of the company, by elimination, is criticised in the specialty literature, there are opinions according to which the application scope of the domestic law shall be determined by the interpretation given in each and every Member State to the words: "uncovered by" Regulation or by Annex I[11].

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[10] Susanne Braun, *"Essay-The European Private Company: A Supranational Company Form for Small and Medium-sized Enterprises?"*, German Law Journal, Vol.05 No.11, 2004, p.1393-1408, available at: << http://www.germanlawjournal.com/article.php?id=518>>;

[11] H.J. de Kluiver, J.Roest, *"Expulsion and Withdrawal of Shareholders"* and M.I.Lennarts, *"Voice Rights of Shareholders"*, both in: D.F.M.M. Zaman et al. (eds.) *The European Private Company (EPC). A Critical Analysis of the EU Draft Statute*, 2009, p.70 and p.126, indicated by Sandra van den Braak in *"The European Private Company, its shareholders and its creditors"*, Utrecht law Review, Volume 6, Issue 1

It is obvious that, by the legislative technique used by article 4 of the Regulation it is avoided as much as possible the application of the domestic law of the company.

2. Establishment Methods

Unlike all the other current European entities (European company, European groups with economical interest, European cooperative companies), EPC can be established *ex nihilo, by transformation and merger.*

An EPC shall be established ex nihilo (directly) by one or more private or public law natural or legal persons, according to the provisions of EPC regulation.

The transformation of a current legal person, regulated by the internal law of a member state is the second establishment method for an EPC, under the conditions, according to the regulation*, the member states are compelled to allow the transformation of a limited liability national company in an EPC.* Regarding the other types of national companies, the member states shall allow their transformation in an EPC in the extent national law allows their transformation in a limited liability company, in general.

In this establishment method for the EPC, according to the general rules in the matter, the legal person / company which is transformed is neither dissolved nor loses its legal personality.

When domestic law imposes a restriction related to the transformation of a legal person in a limited liability company, such restriction is applied, mutatis mutandis, to the transformation of the EPC as well.

In case the EPC is established *ex nihilo* or *by transformation*, *the establishment of the company shall be regulated by the regulation.*

And not least, the EPC can be established *by merger, according to domestic law.*

On the other hand, as it is known, for encouraging the businesses, all the member states of the European Union regulated, approx. one hundred years ago, legal entities known as "companies", which mainly offered its founders the limitation of personal liability. This main feature of companies: distinct legal personality, with the effect of associates' liability limitation, explains the extraordinary use of such legal instruments which give the possibility to develop a business without risking the full assets of the contractor.

Therefore, EPC is registered on the traditional line of limited liability companies and *has legal personality, with the consequence of the liability of associates for the obligations of the company in the limit of their contribution to the registered capital, that is, with the exclusion of their personal liability for the obligations of EPC.*

(January), 2010;

3. Articles of Association

In any of the establishment methods allowed by the regulation, *EPC is established by the signature of the articles of association by the founder members, in written form, it being object of the formal requirements provided for in the applicable domestic law.*

By such provision, the regulation first concedes in favour of the member states, giving the possibility of the applicable domestic law for the establishment of EPC to impose as well other shape conditions of the articles of association. In this direction, domestic laws include various provisions, in some cases, being imposed the written form for the validity of the articles of association, in others for proving the articles of association and as well its authentic form for its validity.

As for example, the Romanian law[12] imposes as regulation the written form of the articles of association, for its validity and, by exception, the authentic form when the limited liability company is established where a land is brought as contribution to the establishment of the registered capital.

The opposability of the articles of association is as well obtained, according to the provisions of the applicable domestic law.

According to article 8 in the regulation, *the articles of association of the EPC must include at least the following aspects:*

a) name of EPC and address of its registered office;

b) activity object or commercial activity of the EPC;

c) tax year of EPC;

d) registered capital of EPC;

e) if applicable, the total number of units, if the units have a nominal value, their nominal value;

ea) monetary and nonmonetary rights, as well as obligations related to units;

eb) categories of units, if applicable, and number of units in each category;

ec) type of management body, if there is a surveillance board, and their structure;

f) share of the registered capital to be paid upon establishment;

g) names and addresses of the founder members, number of units subscribed by each and every founder member and, if applicable, of what category such units belong to;

h) the share of each and every cash contribution, if there is one, which is to be paid by each and every founder member;

i) value and type of each in kind contribution, if there is one, which is to be brought by each and every founder member;

j) names, addresses and any other information needed for identifying the director or initial directors and, if applicable, the auditor or initial auditors of the EPC.

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12 Law no.31 from 1990 regarding trading companies and the new Romanian Civil Code;

The inclusion of additional clauses related to the aspects mentioned in Annex I of the regulation is to be appreciated by the founder members. In such case, domestic law is not applied to those aspects in the extent they are included in the articles of association.

The articles of association may include as well *other aspects than those compulsory and elective* from the regulation but, such other aspects shall not be regulated by the regulation, but by the applicable domestic law.

4. Registered Capital

The EPC is not object of a requirement of registered capital compulsorily increased, as it may constitute a barrier for the creation of EPCs. Nevertheless, the creditors are protected by the excessive distributions to the shareholders, which may affect the capacity of the EPC to pay its debts. For such purpose, they prohibited the distributions as a consequence of which the liabilities of EPC are superior to the value of the assets. Additionally, the shareholders may request to the management executive body of the EPC to sign a certificate of good standing.

There are, amongst the provisions of news and the special importance which may provide the premises for reaching the objectives of the regulation, those related to the *minimum registered capital of the EPC of at least EUR 1*.

The base of the possibility of a EUR 1 registered capital for a private company operating on a single market is given by the alteration of the conception on the guarantees the creditors of a company expect and request.

It is well known that, according to its legal significance, the registered capital represents the general pledge of the company's creditors. Despite this legal reality, the social obligations exceeding by far the value of the registered capital so that, de facto, the assets of the company are those providing or not satisfaction of social creditors[13].

And not least, it is proven that the creditors prefer to request other types of guarantees, individual and enforceable, to that offered by the registered capital, the assets being those value of which grants solidity to the company[14].

There is, in the light of the decisions of the Court of Justice of the European Union, the tendency to waive, for the future, the requirements related to the minimum capital. Therefore, Germany has recently entered *Unternehmergesellschaft* with a minimum capital of EUR 1 and The Netherlands is in full progress of removing the capital related requirements for *Besloten Vennootshap*[15].

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13 Details in: H.Boschma, L.Lennarts, H.Schutte Veenstra, "The Reform of Dutch Private Company Law: New Rules for Protection of Creditors", European Business Organization Law Review 8, 2007, p.573;

14 Drury, Robert/Hicks, Andrew: *"The proposal for a European Private Company"*, The Journal of Business Law, p.441, 1999, :"But the provisions of a minimum capital has not always the effect of providing any sort of guarantee that the business is sufficiently capitalised to protect third parties dealing with it";

15 Sandra van den Braak, *"The European Private Company, its shareholders and its creditors"*, Utrecht law

Despite such tendencies, a minimum registered capital of EUR 1 represents a level which cannot be accepted by the legal traditions of all the member states of the European Union, for which reason, politically speaking, the opinions are still divergent regarding the capital of the EPC.

Neither the European Parliament agreed this new conception and, in order to make a balanced compromise, the last version of the regulation includes the *possibility of each and every state to be able to establish for the EPC registered on its territory, a minimum registered capital higher than EUR 1, but not more than EUR 8000.*

The large interval between the two minimum thresholds of the registered capital of the EPC shows the difference existing between the member states of the European Union. Poland requests a minimum registered capital of limited liability companies of: EUR 13,869, United Kingdom EUR 1.5, France EUR 1, Hungary, EUR 11,760, Austria EUR 35,000, the Netherlands EUR 18,000, Bulgaria EUR 2,500[16], Romania EUR 45 etc.

We do not believe that the establishment of the minimum capital of EPC by each and every member state, within the interval established by the regulation: 1 Euro- 8,000 Euro, shall lead to the success of the EPC, the minimum share of EUR 1 regarded by the initial proposal being that which, amongst other arguments, may represent an important criterion in choosing this type of private company.

Additionally, the creditors of the EPC are guaranteed as well by its obligation not to distribute the dividends of its associates if, on the date of the last tax year end, the net assets resulted from the annual accounts of the EPC is, or after such a distribution, may decrease below the share of the capital plus that of the reserves which cannot be distributed according to the articles of association of the EPC. The member states have the possibility to enter as well the *requirements related to the "certificate of good standing"* by which the management body of the EPC certifies that the company is able to pay its debts on the maturity term, in one year's term from the dividends distribution date.

And not least, *the capital of the EPC is integrally subscribed by the associates who can contribute by contributions in cash and in kind, and divided in shares. The labour and service contributions are not allowed.*

Regarding the payment of the registered capital, the regulation indirectly contains provisions, by establishing the conditions for the payment of the associates' contributions. Therefore, the contributions in cash must be paid in proportion of 25% and the contributions in kind must be integrally paid, in the moment the shares are purchased, for what represents the part of the registered capital equating the minimum capital requirements.

On such grounds, seeing these conditions and the associates' decision, *the articles of association of the EPC must include the share of the capital which is to be paid upon its establishment.*

Review, Volume 6, Issue 1 (January), 2010, available at:<<http://utrechtlawreview.org>>;

16 Source: Impact Assessment, Working Document accompanying the Proposal for a Council Regulation on the Statute for a European Private Company (EPC), op.cit., Annex A3;

5. Registered Office

The cross-border mobility of companies is mainly guaranteed by the freedom for establishment. Despite all this, Article 49 from the TFUE which establishes the freedom of establishment does not recognize to companies according to Article 54 from the TFUE, the right to move their registered office from the legal system of the home member state[17] in another member state so that, the companies must change for it their nationality and adhere to the legal regime of a new home state. The case law of the Court of Justice of the European Union is sufficiently clear in this direction and there is no reason to be altered.

And it because, the company is a legal fiction existence of which is recognized by a domestic law, law applicable to the connection existing by the registered office of the company - the registered office[18]-, between the company and the member state where it is formed, laws of which are met upon the establishment of the company. Therefore, the application of a domestic law is the prior condition for the existence of any company.

On the one hand, many Member States do not allow for a company with the registered office registered according to the articles of association on their territory (the Home State) to have the headquarters known as real registered office, on the territory of another member state (Host State)[19].

In order to allow to enterprises to take advantage of all the advantages of the internal market, the EPC must be allowed to establish its registered office and real office in different member states and to transfer the registered office from one member state to another, without being compelled to transfer as well its headquarters or main registered office. Despite all this, one must take measures in the same time in order to prevent the use of the EPC in order to elude the legitimate legal requirements in the member states.

According to the regulation, the *EPC has its registered office and headquarters or the main place for the development of the activities on the territory of the European Union, according to the domestic applicable law.*

By this provision, the regulation would rather only make half a step on a territory of "moving sands", establishing as principle the possibility of a company to have its registered office different from the real office and, additionally, to have its registered office and real office in different member states. "The step finalization" is

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[17] The home member state means the member state where there is the registered office of the company right before the transfer of its registered office in another member state;

[18] The registered office of companies is named "the registered office" as, all the companies are registered in a National Register of Companies, held by the member state where it declares its office in the articles of association, register kept according to the 1st Company Law Directive (Directive 68/151/EEC of 9 March 1968);

[19] Report of the Reflection Group On the Future of EU Company Law, European Commission, Brussels, April 5, 2011, available at: <<http://ec.europa.eu/internal_market/company/modern/index_en.htm#background>> (last seen on November 14, 2011);

launched according to the desires of each and every member state which can accept or not this possibility by its internal provisions.

Therefore, *the applicable domestic law will allow the EPC to decide, by its regulations, if the registered office and headquarters or main place for the business activities should be or not on the territory of the same member state.*

More, *the regulation allows the EPC to transfer its registered office from one member state to another, under the conditions shown by the regulation, without the dissolution and loss of the legal personality of the EPC.*

The transfer of the registered office of the EPC from one member state to another can only get involved if dissolution, liquidation or insolvency or EPC payment suspension procedures were initiated.

The check of the legality to transfer the registered office of the EPC devolves upon the competent national authority. Should the conditions of the transfer of the registered office be fulfilled*, the competent authority with control of such transfer legality from the home state can only oppose to the transfer of the registered office due to public order reasons.*

The same right is also held by the national authority of financial surveillance of the EPC, if the EPC is subject to such a check.

The decision of the competent authority on the home state can be brought to court in front of a judicial authority.

In its turn, *the competent authority in the host state* shall analyze if all the conditions of the transfer indicated in the regulation are met as well as all the relevant provisions in its law and, if affirmatively, *it shall decide the registration of the EPC, moment when the transfer produces its effects.*

On the grounds of the notification related to the registration of the EPC in the host state, the competent authority in the home state decides the erasure of the EPC from its register.

For the opposability of the new registered office registration and of the erasure of the old registered office, such documents are object to advertising.

6. Registration

Seeing the capacity of legal person of the EPC, it must be registered according to the provisions of the domestic law, in the register kept by each and every home state.

The founder members or any person authorized by them request registration, which can be also electronically performed.

Article 3 item 3 of the regulation requires as *essential element of the registration as European entity of the EPC, its transnational structure.*

The current shape of the Regulation alienates from the initial proposal which included no referral to a cross-border element as they considered that such requirement might significantly reduce the potential of the EPC. The alteration of conception was determined by the fear that such lack of community dimension as precondition of its establishment as an EPC may infringe the principle of subsidiarity regulated by article 5 in the EC Treaty[20].

The difficulties created by the cross-border components imposed for the existing European entities (European company, European group with economical interest, European cooperative company) are removed by flexible criteria included in the regulation.

The needed cross-border structure must be proved in the moment of the registration of the EPC by one of the following elements, very easily to fulfil[21]*:*

i) an intent to operate in another member stat than that where the EPC is registered; or

ii) an cross-border activity object mentioned in the articles of association of the EPC; or

iii) a branch or subsidiary registered in another member state than that where the EPC is registered; or

iv) an associate or several associates with residence or registered in more than one member state or in another member state than that where the EPC is registered.

In order to reduce administrative costs and duties related to the registration of the company, the formalities to register the *EPC* are limited to the requirements needed to guarantee the legal certainty, and the *validity and conformity to the provisions of the regulation and to the domestic law of documents registered in the moment an EPC is created are object of one sole check of legality, performed according to domestic law.*

Therefore, the member states request the supply of only those pieces of information contained in the Articles of Association of the EPC, the articles of association, the documents certifying the payment of the capital, the police record of the directors, the proves related to transformations or mergers of the EPC.

In all cases, irrespective of the method to check the fulfilment of the registration conditions by an EPC, useless essence checks of documents and information are avoided.

The registration of an EPC is made in the member state where it has its registered office, in the national register of companies appointed by the domestic law.

Without derogation from the general rules in the matter of companies, *the legal personality is acquired in the moment of registration with the Register of Companies of the EPC constituted ex nihilo and by transformation and, in the moment of the registration of the merger of the absorbing company with the register of EPC resulted as a consequence of the merger.*

7. Organizing

According to the organizing structures of the EPC, the regulation does not produce conception alterations seeing that, *the main decision making body is the general assembly of the associates decisions of which must be written down; the management of the EPC is provided by directors which can only be natural persons, the associates having the possibility to decide*

[20] Sandra van den Braak, op.cit., p.4;

[21] A.F.M. Dorresteijn, O.Uzuahu-Santcroos, "The Societas Privata Europaea under the Magnifying Glass (Part 2), European Company Law, no.4, 2009, p.159;

between the two traditional management methods: unitary or dualist system and, related to the elaboration, delivery, auditing and printing of accounts, EPC is object of the requirements of domestic law.

The representation of the EPC in its reports to third parties is included in the general attributions of the management body of the EPC.

The regulation establishes the main attributions of the general assembly and the minimum majority related conditions needed by the general assembly to pass decision.

Therefore, *as a general rule, except for contrary provisions from the articles of association, the decisions are passed by the associates with the vote of the simple majority from the total of the voting rights related to the shares of the EPC.* By this provision, the associates have the possibility to establish majority related conditions much lower than those mentioned by the regulation, for passing the low importance decisions for the company.

The decisions related to the purchase of its own shares, the increase of the registered capital, the reduction of the registered capital, the transfer of the registered office of the EPC to another member state, the dissolution and amendment of the articles of association are made by the associates with the qualified majority, of at least two thirds of the total of voting rights related to the shares of the EPC, except for the cases when the articles of association provide no higher increase.

An important alteration of the tradition conception related to the convocation of general assembly is marked by the *introduction of the principle of non-convocation of the associates' general assemblies.*

Therefore, *according to article 28 item 3 in the Regulation, passing decisions does not need the convocation of a general assembly.*

Such principle one cannot derogate from by the provisions of the applicable domestic law is imposed by the need to reduce the costs of the business but as well by the effective use of the time to pass a decision. Therefore, they remove the conditionings included by all laws of the member states related to the observance of a certain number of days which should flow from the date the associates' general assembly is convoked to the date of its occurrence. The expenses needed for the convocations are added.

In order for the associates' general assembly of an EPC to pass decisions, the management body makes available for all the associations the proposals for decisions, together with sufficient information in order to grant them the possibility to pass a decision, in full knowledge of the facts. Decision passing is recorded in writing, as they are object of the formal requirements provided for by the applicable domestic law. Copies of the decisions and the results of the vote are sent to each and every associate.

As a natural reflection of the fact that associates' passing decisions is fully regulated by the regulation, as principle, *the decisions passed by the associates of the EPC must meet the provisions of the regulation and of the articles of association.*

However, *the right of the associates to bring to court the illegal decisions of the associates' general assembly, which infringe the provisions of the regulation and of the articles of association, is regulated by the applicable domestic law.*

Due to the fact that one must allow the shareholders a high level of flexibility and freedom for organizing the internal business of the EPC, *the private character of the* *company must reflect as well in the fact that its actions can neither be offered to the public or negotiated on the capital market, nor admitted for transactions or quoted on the regulated markets.*

They appreciate that the private character of "closed company" of the EPC can be an instrument for the limitation of the size of the companies constituted in the EPC, by making the possibility for experimented partners to get involved in the company more and more difficult[22].

The condition to distribute dividends and the reduction of the registered capital, the assignment of shares are regulated by the regulation and the articles of association while the *transformation in a new legal type, the merger and division, dissolution, liquidation, insolvability, suspension of EPC payments and other similar procedures are regulated by the domestic applicable law and by the Regulation (CE) no.1346/2000 of the Council.*

8. Employees' Participation

There are, in the matter of employees' participation, significant differences, this being another important aspect where, due to the different legislative traditions of the member states, there must be a balance compromise.

In the meaning of the regulation, "employees' participation" means the influence the body representing the employees and/or the employees' representatives has on the activity of an EPC by:

i) the right to choose or appoint a part of the members of the board of surveillance or of directors of the company or

ii) the right to recommend and/or to oppose to the appointment of some or all the members of the board of directors of the company (art.2 item 2 letter f in the regulation).

As principle, the regulation establishes that the EPC is applied the regulations in the matter of the employees' participation, if such case, applicable in the member state where it has its registered office, except for the aspects regulated by the regulation, offering a uniform solution for any EPC[23].

The regulation contains special dispositions to be applied with precedence related to those of the applicable domestic law, for exceptions, cases when one of the conditions is fulfilled:

i) EPC, for a continuous period of three months from the registration, has at least 500 employees usually working in a member state which provides a degree of employees' participation higher than provided for the employees in the member state where the EPC has its registered office; or

ii) In case of transfer of the registered office of an EPC

- at least a third of the employees, but not less than 500, ordinarily working in the home state on the date it is registered in the host state; and,

[22] See Susanne Braun, op.cit., p.1399;

[23] Daniel Karnak, *"The European Private Company - Entering the Scene or Lost in Discussion?"*, German Law Journal vol.10, No.08, 2009, p.1327;

- employees in the home state had more participation rights than those in the host state.

Despite all this, if the transnational participation system for the employees created according to this article is applied to the EPC in the moment of the transfer, is to be applied after the transfer, if the EPC and the special negotiation body do not decide in another way.

Employees' participation to the management of the company is a sensitive subject for the member states where there is no such tradition, states where no private company accepts intrusions in the development of its businesses which they regard as a private issue and related to which only the associates are entitled to decide.

The regulation does not impose the obligation of the member states to introduce rules related to the participation of the employees in the limited liability companies managing to correct the regulation of employees' participation in the operation of the EPC, without improperly disturbing the legal culture of each and every member state[24] *which may discourage the establishment of EPC.*

III. Conclusions

Even in its current configuration the EPC related Regulation represents a significant progress to the regulation of the other European companies.

Its correspondence (destined to large enterprises and groups of companies): the European Company was thought as well as a transnational company which may provide the mobility of companies by the possibility to transfer the registered office from one member state to another, to enable the merger and establishment of their branches in other member states etc. such daring targets did not benefit from the needed political support and the proposal was amended many times before its enactment. Under such conditions, the statistics indicate that the European company did not represent a progress and did not enjoy success.

For the future, an important step in the performance of rules of common law for the trading companies in the European Union shall be made by the European Project Model Company Act (EMCA), project having as model the American Model Business Corporation Act (MBCA)[25]. The purpose of such project is not to standardize domestic laws in the matter of companies by offering one single act, but to make available for the member states a model for the domestic laws, model to be voluntarily used by the member states.

Until the concretization of other European projects in the matter of trading companies, the EPC presents uncontested advantages to any other European entity:

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[24] Situatie pe care o intalnim la Societatea Europeana in cazul careia, reglementarile privind participarea salariatilor la SE se aplica tuturor statelor membre (see: Directive 2001/86/CE of 8 October 2001 supplementing the Statute for a European company with regard to the involvement of employees);

[25] On the EMCA project, see: T. Baums & P. Krüger Andersen, *The European Model Company Law Act Project*, European Corporate Governance Institute, Law Working Paper No. 097/2008, March 2008. See also the EMCA website: www.asb.dk/emca;

the possibility of direct establishment - ex nihilo, reduced minimum registered capital, very easy to perform cross-border structure, possibility to have its registered office in a member state and the real office in another member state, possibility to transfer the registered office from one member state to another, flexibility of the articles of association, of internal organizing, failure to impose requirements to the employees' participation of the EPCs registered in member states which do not regulate employees' participation etc.

There is to establish the extent in which the largely more extended incidence of the domestic law applicable to the EPC shall represent an important inconvenient in the use of EPC. There is no doubt that in its current configuration, EPC Regulation does not offer certainty related to the role of the domestic law applicable to the EPC and, the more the aspects regulated by the domestic law of the EPC, the less uniform the law applicable to the organic statute of the EPC.

We appreciate as the strongest advantage of the EPC: the deployment of cross-border business within a single market through the agency of an instrument legal regime of which is sufficiently uniform, independently from the member state where it develops its activity, directly or by branches, may determine the success of this new instrument for doing business in the European Union.

STATISTICAL METHODS USED IN THE ANALYSIS AND FORECAST OF THE TOURISM ACTIVITY AFFECTED BY SEASONALITY

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Abstract

A lot of economic activities (tourism, commerce, transport, agriculture, constructions etc.) witness a different evolution of the performance indicators throughout the year, as there are seasonal variations (oscillations) on shorter intervals of time (trimesters, months, weeks, even days). These periodic variations, on time lapses shorter than a year, get repeated with relative accuracy from one period to another.

The objective of this paper is to analyze the possibilities of quantification of the phenomenon of tourism seasonality, through the utilization of two methods: the seasonal coefficients and the decomposition of the chronological series to its main components.

Keywords: Tourism, seasonality, statistical methods.

JEL Classification: L83, C10, C16

1. Introduction

In tourism, seasonal variation concretizes in a greater or lesser concentration of tourist flows in certain periods of the year, as a result of the impact of:

- natural factors (the succession of seasons, climate conditions);
- social factors (legal holidays, days off, the structure of the school and university years etc.)

The implications of seasonality on the tourism activity reflect in:

- the overuse or the incomplete use of the material basis and of the workforce;
- the effects on prices, costs and, implicitly, on profitability;
- the effects on the quality of tourism services and, further, on the consumer degree of satisfaction.

In what follows, we will analyze the seasonality of the tourism activity in Romanian mountainous resorts, based on the indicator "number of tourists accommodated in tourism lodging structures". The necessary information for the period 2007-2009, by months, has been taken from the monthly statistical Bulletins published by the National Institute of Statistics (http://www.insse.ro).

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2. The analysis of the seasonality of the tourism activity with the help of seasonality coefficients

To characterize the seasonality of the analyzed phenomenon we use the **seasonality coefficients** (KS_L), which are calculated as percentage ratio between the average level of each month registered on a period of a few years ($\overline{X}_L$) and the general monthly average ($\overline{X}_G$):

$$KS_L = \frac{\overline{X}_L}{X_G} * 100$$

The average of each month over a period of a few years ($\overline{X}_L$) is obtained as an arithmetic mean of the levels registered in the same month over the period (in years) that is being considered.

The general average ($\overline{X}_G$) is calculated as a monthly average of the whole period (in our case three years, respectively thirty-six months). The general average can be obtained in a few ways:

- as an arithmetic mean of the monthly medium levels of each year;
- as an arithmetic mean of the medium levels of each month registered over the three years;
- as a ratio between the total number of tourists registered over the three years and the total number of months of the period.

The interpretation of the seasonal coefficient is the following:

- if $KS_L > 100\%$, then the level registered in month L is above the general monthly medium level of the period, the seasonal factor having a favorable influence;
- if $KS_L < 100\%$, then the level registered in month L is under the general monthly medium level of the period, the seasonal factor having an unfavorable influence;

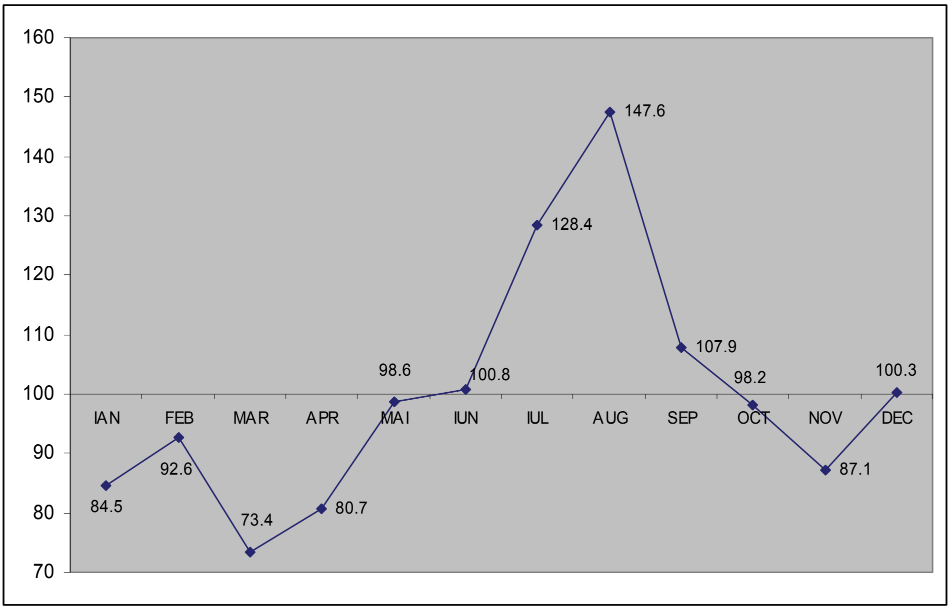
The seasonal coefficients have the property that their sum must be equal to their number (twelve for the monthly analysis, four for the trimestrial analysis), multiplied by a hundred.

In our case:

$$\sum_{L=1}^{12} KS_L = 1.200$$

The signification of the seasonal coefficients results very clearly from their graphical representation:

Figure no.1 The seasonal monthly coefficient for the number of tourists accommodated in lodging units in the mountains



The main conclusions that arise from the analysis of the seasonality of the tourism activity in the mountainous resorts are synthesized as follows:

- the seasonal factor had a favorable influence in the months of August (147.6%), July (128.4%) and September (107.9), so in the third trimester of the year:
- in the months of July and December the number of accommodated tourists was at the level of the general monthly average (100.8%, respectively 100.3%); what is surprising is the reduced influence of the seasonal factor in December;
- the seasonal factor has influenced unfavorably the tourism activity in the other three trimesters, the most reduced levels of the seasonal coefficient being registered in::
  - the first trimester, especially in March (73.4% - the most reduced level) and in January (84.5%),
  - the second trimester, especially in April (80.7%);
  - the fourth trimester, especially in November (87.1%).

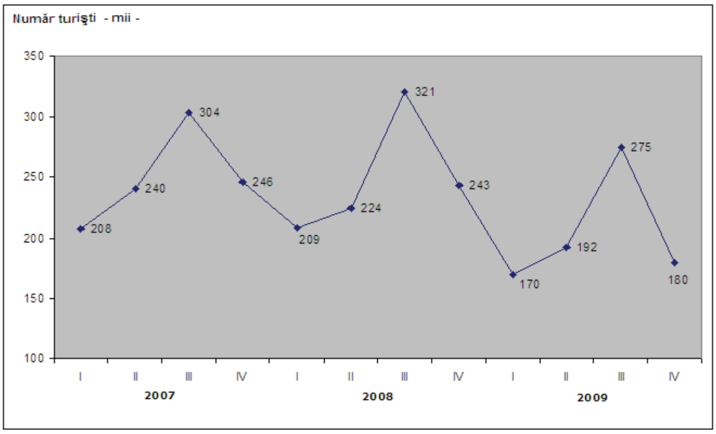
The analysis over a period of three years reflects the fact that at the level of the tourism activity in the mountainous area a series of seasonal periodic variations (monthly and trimestrial) can be identified, variations that get repeated relatively constantly.

The method of the seasonality coefficients offers a synthetic but static image of the periodic oscillations (variations), without achieving a connection between the evolution of the respective phenomenon in time and the influence of the seasonal factors. In order to quantify the seasonal component in a dynamic framework, through which we could identify change as well, the transformation and the development of the phenomenon in time, we resort to the decomposition of the chronological series to its main components.

3. The modeling of the seasonality of the tourism activity based on the analysis of the main components of a chronological series

In order to analyze the seasonality of the number of tourists accommodated in the lodging units of the resorts situated in the mountainous area, the trimestrial data for the period 2007-2009 has been used. The visualization of the seasonal variations is achieved through the graphical representation of this trimestrial chronological series.

Figure no. 2 The evolution of the number of tourists accommodated in the lodging units in the mountainous area



Even without any calculations, we can identify from this chart a series of tendencies:

- the variations are repeated annually, so every four trimesters;
- every year of the period the minimum level is registered in the first trimester, and the maximum level is reached in the third trimester;
- the evolution trend for the whole period 2007-2009 is a reduction of the phenomenon.

The terms of this chronological series show a high degree of variability, according to the action of various factors that are active throughout the period. Consequently, the chronological series can be decomposed in three components (Secăreanu and Gruiescu, 2010, p. 208):

The general tendency or the trend (y_T) constitutes the main component of the evolution line, formed as a result of the action of the essential factors, with permanent influence and which give the phenomenon its direction of development.

A. **Periodic oscillations (variations)** (y_S) that are systematic and repetitive, usually produced under the influence of natural factors – the climate, which manifest every trimester. Sometimes the periodic oscillations manifest as well as an effect of social and organizational factors such as: legal holidays, the regimen of days off, the structure of the school and university years etc.

B. **Accidental deviations** or **the residual component** (y_R) manifest as irregular deviations from the line of systematic evolution, as an effect of the action of some accidental (random) factors.

For the decomposition of the chronological series in the three components, we will resort in what follows to the **additive model** (Voineagu and Țițan, 2004, p. 123), according to which the level of the characteristic (the number of accommodated tourists) each trimester (y_t) equals the sum of the trend (y_T), the seasonal variations (y_S) and the residual component (y_R):

$$y_t = y_T + y_S + y_R$$

A. To determine the long-term tendency (**trend**) we will use the method of **moving averages.**

The moving averages ($\bar{y}_t$) result by progressively replacing the real terms y_t, with partial averages calculated from the terms of the series. The number of terms out of which the moving averages are calculated equals the number of terms at which a complete oscillation occurs. In our case there are twelve terms, corresponding to the four trimesters of the three years. Since a complete oscillation happens annually, thus after four terms (corresponding to the four trimesters), then the moving averages will be calculated out of four terms.

To calculate the moving averages from an even number of terms (four terms) we must go through two stages (see Table no. 1):

a. The temporary moving averages ($\bar{y}_t$) are calculated. The temporary moving averages are situated in-between the two terms with a middle position in the group of the four terms that participate in the calculation of the average, a reason why these must be centered.

b. The centered moving averages ($\bar{\bar{y}}_t$) are calculated as an arithmetic mean of two temporary moving averages.

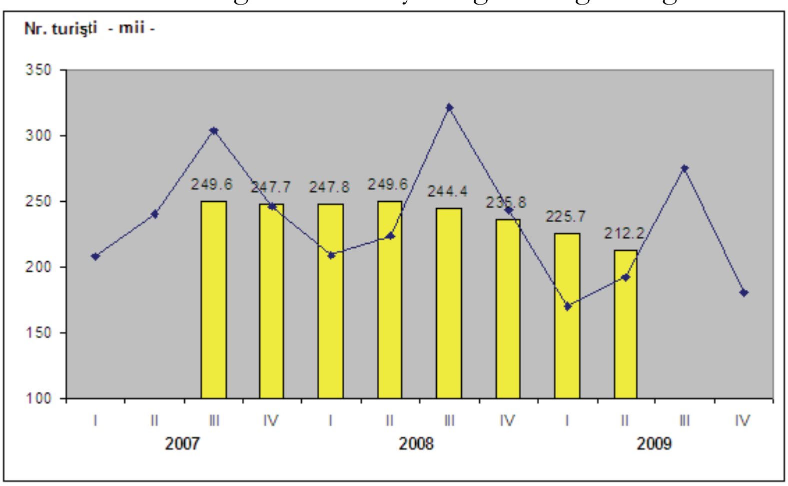
We may notice that determining the tendency through the method of the moving averages leads to a certain loss of information. Thus, for the first and the last terms of the chronological series we cannot calculate adjusted values (moving averages). In this case the real series (y_t) comprises twelve terms, whereas the adjusted series ($\bar{\bar{y}}_t$) is made up of only eight terms.

Table no. 1 The calculation of moving averages (thousands of tourists)

Year	Trimester	Period	Number of tourists y_t	Moving averages: Temporary $\bar{y}_t$	Moving averages: Centered $\bar{\bar{y}}_t$
2007	I	1	208		
	II	2	240		
				249.5	
	III	3	304		249.6
				249.8	
	IV	4	246		247.7
				245.7	
2008	I	5	209		247.8
				250.0	
	II	6	224		249.6
				249.3	
	III	7	321		244.4
				239.5	
	IV	8	243		235.5
				231.5	
2009	I	9	170		225.7
				220.0	
	II	10	192		212.2
				204.3	
	III	11	275		
	IV	12	180		

The following graphical representation clearly illustrates the way in which the moving averages ($\bar{\bar{y}}_t$) allow the calculation of the tendency (trend) under the influence of the objective factors, by eliminating seasonal variation and accidental (residual) factors, ensuring the leveling of the chronological series.

Figure no. 3. Determining the tendency using moving averages



The graphical representation confirms that between 2007-2009 a decrease in the number of tourists accommodated in the lodging units of the mountainous area was registered.

B. **Determining seasonal variations** presupposes going through the following stages:

a. We eliminate from the real values of the chronological series (y_t) the trend component (y_T), determined through the method of moving averages:

$y_t - y_T = y_S + y_R$

where:

$y_T = \overline{\overline{y}}$ (calculated in Table no. 1.)

b. For each trimester (season) we calculate the seasonal deviation as an average of the deviations obtained in the first stage. Through the calculation of the averages we eliminate most of the residual (random) variations.

c. We calculate seasonal deviation through the correction of the averages obtained at the previous stage, taking into account the condition that the sum of all deviations should be null.

The results reflect that the seasonal factor deviates the number of tourists accommodated in the lodging units of the mountainous area as follows:

- In the first and the second trimesters, under the trend line with forty-seven thousand tourists, respectively twenty-two thousand tourists.
- In the third and the fourth trimesters, above the long-term tendency with sixty-six thousand tourists, respectively three thousand tourists

C. **Determining the residual (random) component** – y_R is achieved based on the relation:

$y_R = y_t - y_T - y_S$

The final results synthesize the influence of every component on the evolution of the phenomenon: the trend, the seasonal component and the residual component.

Table no. 2 The components of the chronological series (thousands of tourists)

Year	Trimester	No. of tourists (actual data) y_t	Tendency (centered moving averages) $y_T = \overline{\overline{y}}$	Seasonal component (seasonal deviations) y_S	Residual (random) component $y_R=y_t-y_T-y_S$
2007	I	208	-	-	-
	II	240	-	-	-
	III	304	250	+66	-12
	IV	246	248	+3	-5
2008	I	209	248	-47	+8
	II	224	250	-22	-4
	III	321	244	+66	+11
	IV	243	235	+3	+5
2009	I	170	226	-47	-9
	II	192	212	-22	+2
	III	275	-	-	-
	IV	180	-	-	-

4. Conclusions

The initial information offered an unclear image regarding the evolution of the phenomenon in time: great variations from one trimester to another, more or less explicable variations.

By applying the model we have presented, a series of important conclusions have been identified:

1. The number of tourists accommodated in the mountainous area between 2007-2009 is decreasing: from two hundred and fifty thousand tourists in the third trimester of 2007, up to two hundred and twelve thousand tourists in the second trimester of 2009.

2. The seasonal factor has a different influence: negative in the first and the second trimesters (-47 thousand tourists, respectively -22 thousand tourists) and positive in the third and the fourth trimesters (+66 thousand tourists, respectively + 3 thousand tourists).

3. The residual (random) component had a different influence, between -12 thousand tourists in the third trimester – 2007 and +11 thousand tourists in the third trimester – 2008, the third trimester being the one with the greatest seasonal deviation.

A specific situation is met in the fourth trimester, when – although the absolute values of the residual component are reduced – these have higher values than the seasonal component. Thus, in the fourth trimester – 2007, the seasonal variation is +3 thousand tourists, whereas the random component is -5 thousand tourists; in the fourth trimester – 2008 the increase of the number of tourists by three thousand is due to the seasonal factor, whereas the accidental (random) factors contributed to the increase of the number of tourists by five thousand. Consequently, the seasonal factor determined by the increase of the number of tourists during the winter holiday period was countered by a series of accidental elements (for instance: unfavorable climate conditions, unattractive domestic tourism offers and, implicitly, the orientation of the population on external tourism activities etc.).

Various methods of analysis for seasonality allow not only the diagnosis of past periods, but also the achievement of realistic forecasts on the evolution of the phenomena that are influenced by seasonal variations.

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***http://www.insse.ro

BOOK REVIEW

Making Great Decisions in Business and Life by David R. Henderson and Charles L. Hooper, Chicago Park Press, Chicago Park, 2006.

Ulysses D. Smith, Jr.*

In modern day society a consumer must make a choice usually between two or more goods or think about "to buy or not to buy," but when does the consumer know they will make the good choice. Yes, they can weigh the pros and cons, look at the cost, ask the manager, or flip a coin. But when and how can the consumer make the right choice. The explanation of difference between good choices and right choices are both answered in this book. DRH (David R. Henderson) and CLH (Charles L. Hooper) discuss different scenarios and analyze how the consumer reaches the right choice. The majority of examples from the book are real life situations, similar to real life situations, or topics simple enough to relate the concept and understand how to make great decisions in business and in life. The book uses these small personal concepts to show how the reader can apply them to big business decisions, which lowers stress and results in better decision making leading to better lives and better business.

A simple example of difference between the right choice and a good choice is as follows: A consumer is at a cellular phone company and they are looking for a "deal" and they see cell phone1 for ten dollars with a bill for forty dollars a month and cell phone2 for fifteen dollars with a bill for thirty-five dollars a month. Immediately the consumer, without much math skills the consumer will go for the cheaper phone relative to price and think it's the better deal. The problem here: the consumer chose the cheaper phone, but in the long run spent more money on the phone bill. The correct choice would be to get the higher priced phone with the cheaper bill. This is only one of the hundreds of scenarios that can be applied with parameters that make the choice of a "good deal" easier or harder to calculate.

In *Making Great Decisions*, there are short stories that take several things into consideration such as figuring how much your time is worth, buying the right muffler, and thinking on the margin. The book addresses these topics because consumers do not acknowledge them at first sight. In chapter 1, CLH, talks about the consumer who buys based on price only. The consequences of buying based on price only are receiving a product that can malfunction and or continue buying lots of the cheap products that don't last. In CLH's case, he bought a sixty-five dollar muffler that took more than four hours to install and gave him multiple problems. When he bought the muffler that was one hundred fifty five dollars he experienced

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no problems. He learned the hard way that just because something is cheap does not mean it is a good deal. To add on, there were other hidden factors to consider, opportunity cost being a huge one. Opportunity cost is one of the biggest things most consumers are unaware of. Time is money but for some reason consumers forget how much time they waste to get a deal. Opportunity cost, the cost of passing up the next best choice when making a decision. So the time he wastes waiting on getting the muffler done could have been spent on anything else. The sixty five dollar muffler results in a complete waste of time and money. (11)

In chapter 2, "thinking on the margin," is also one of the many things to consider when making good decisions. When a consumer makes a choice the last thing they think about is thinking on the margin when it should be the first. For example, David and his therapist discuss time put towards to writing a dissertation. David spent a week avoiding work on his Ph.D. dissertation. When it was crunch time, he still didn't want to do it because he felt that it was too difficult to put four or more hours of work into in one day. The therapist replied "How long are you working on it now on an average day?" DRH said "…zero." With that said, it is obvious that any time spent on it is better than no time spent writing it at all. The therapist proposed that he should start small and gradually build his time up to reach the desired time committed to working on the dissertation. Thinking on the margin brought DRH to the conclusion that it was possible to start at two hours a day and work his way up, breaking the large the assignment into several small assignments to hide the illusion of difficulty the assignment contained. (19)

Making Great Decisions is generally examining how consumers usually make horrible decisions because they "think" they are getting a good deal then shows what the actual good deal should be. They are easily lured into purchases based on low prices, sales talk or some market scheme as I would say that distracts the consumer from using some common sense. It does not take rocket science to see that everything is not worth buying just because it is cheap. For example from the text, the salesman is trying to sale an elephant to a customer. Now realistically nobody really "needs" an elephant but this awkward story makes perfect sense of the simple mistakes consumers make. The salesman is selling the elephant for five hundred dollars and the customer has no interest, so the next tactic he uses is to throw another elephant in for free, this still doesn't please the customer so finally the customer creates his own deal by saying "I'll buy two if you make the price four hundred dollars. Immediately, the salesman closes the deal. This is a typical scenario in society for consumers especially in flea markets where the consumer will end up purchasing a good they don't need but they buy it because the deal seems to be "so good." In the case of the elephants the only way the deal would be any good is if the consumer could buy the two elephants for four hundred dollars and sell them for more than what he paid which is not likely because he will have difficulty finding someone to sell elephants to. The lesson is cheap does not imply a good deal unless the consumer can capitalize on the purchase to make a profit or if the cheap good is of any real value to the consumer.

In chapter 10, Making Great Decisions looks at how risk is a part of growth. CLH tells a quick story of his father-in-law and his avoidance of risk. He asks his father-in-law why he doesn't invest in the stock market and his father-in-law replies "…it's like gambling." CLH know this is true but ponders on the fact that everything is technically a gamble. He elaborates on his father-in-laws lifestyle analyzing all the events which are too "gambling." CLH figures that his father-in-law must not gamble with moderate investments. From what his father-in-law has done in his lifetime, every event has its level of risk so CLH concludes that risk depends on your situation but the question is how much risk it will take to alter your decision. CLH answers the question in his drug dealer example. "The Drug Dealers risk" talks about the probability of dealing drugs and the risk it involves. The summary of the example is that age and money invested at the age will affect the decision if the person should deal drugs. "The 20 year old man with only 1,000 would have no problem dealing drugs to gain more money but the 40 year old man with 200,000 will try to find an easier alternative to make money." We can assume the 20 year old man has not much to lose because since he only has 1,000 and 20,000 will make him much better off, but for the 40 year old man he has plenty money invested so 20,000 and the chances of losing 200,000 is not worth the risk. So the lesson from the tenth chapter is that every individual is affected differently by risk and the measurement of risk is not constant, it varies so in order to make the right choice the consumer will need to determine if the risk is higher than the amount they already have. For example if you lose $10 in a $20 dollar bet risk is high so you should not make that bet again, But if you lose $10 in a $200 bet you won't be as hurt.(165)

Chapter 15, "Do the right thing," of all sections is the most important. This is the answer to making "great decisions." This section of the book reveals the secret. Doing the right thing is the best way to make the best choice. Doing the right thing consists of doing for others and in the end you will get what you want. In Making Great Decisions you have three ways, one that actually works. "The three choices are create it yourself, steal it and trade. Creating it yourself directly creates value but there are tight limits. Stealing results in negativity and nothing is created. Trade is how the 99 percent of people get what they want. This means with trade we need to depend on many others, usually people we don't even know." This chapter is more of the way to be ethical. Making some of the greatest decisions require the ability to share because we care for others.

DRH and CLH are good economic thinkers who make the obvious even more obvious. That means that the simple things consumers should consider, they discuss and make the reader realize the concepts the consumer thinks about but should use more in depth thinking of the concepts to make the best decision. I agree with all of the topics discussed in the book throughout the book. Opportunity cost, what constitutes a good deal, thinking on the margin, sunk costs, bias, risk, inequality and other concepts discussed in the book are the topics focused on in a principles course and are applied to real life. Without knowing, many consumers use these concepts to make decisions, but with the help of the book the consumer can develop an understanding of the concepts without a principles course.

To conclude the book is a great read and I suggest it to other students whether or not they are economics majors or not because the book is full of knowledge that people should have if the intend on getting their money's worth. Simple concepts that derive life's biggest problems in a matter of seconds. Whether if it's a muffler job, buying elephants, writing a dissertation or landing a partnership with a big business the lessons learned in the book make the reader a better decision maker.