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## CONTENTS

<b>WALTER E. BLOCK, MICHAEL R. EDELSTEIN</b>	<i>POPSICLE STICKS AND HOMESTEADING LAND FOR NATURE PRESERVES</i>	7
<b>RAIMONDA DUKA, ERINDA BLLACA</b>	<i>ALBANIAN COMPETITION POLICY VERSUS IMPLEMENTATION OF THE COMPETITION LAW</i>	14
<b>ANCA CRUCERU</b>	<i>PRESENT STATUS OF SMALL AND MEDIUM SIZE ORGANIZATIONS (IMMs) AS REPORTED TO THE PROJECT MANAGEMENT UNDER THE CONDITIONS OF THE NEW ORGANIZATIONAL CONTEXT</i>	24
<b>ELENA MOISE, IOANA GABRIELA GRIGORESCU</b>	<i>GLOBAL ECONOMIC CRISIS – ANTI CRISIS MEASURES AND ECONOMIC RECOVERY PROGRAMMES</i>	33
<b>FLORINA-MARIA BOBEȘ</b>	<i>ENSURING THE LEGALITY AND PERFORMANCE IN USING PUBLIC FUNDS</i>	40
<b>TEREZA ŠÍMOVÁ, JOSEF ŠÍMA</b>	<i>IN SEARCH OF EMPIRICAL CONTENT – THE AUSTRIAN WAY TO GO BEYOND PURE THEORY</i>	50
<b>DANIELA ZIRRA</b>	<i>EVOLUTION AND TRENDS OF FLEXICURITY IN THE CURRENT CONTEXT OF ECONOMIC AND SOCIAL DEVELOPMENT</i>	60
<b>GEORGE MĂGUREANU</b>	<i>CONSIDERATIONS REGARDING THE INCOMES AND THE PUBLIC DEBT</i>	75

<b>ALEXANDRU IONESCU, NICOLETA ROSSELA DUMITRU</b>	<i>MULTINATIONAL COMPANIES UNDER THE GLOBALIZATION CONTEXT</i>	86
<b>SORINA COSTACHE</b>	<i>ACHIEVING SUSTAINABLE DEVELOPMENT: THE ORGANIC AND THE FAIRTRADE INITIATIVES</i>	96

## POPSICLE STICKS AND HOMESTEADING LAND FOR NATURE PRESERVES

Walter E. Block and  
Michael R. Edelstein\*

### Abstract

*According to libertarian homesteading theory, in order to convert unowned virgin territory into ownership status, one must mix one's labor with it, thus transforming it through his efforts into land that can be better used by humanity than what was initially there. But, what about acreage whose sole purpose is the contemplation of nature; a nature preserve, that is, untouched by human hands or feet? How can that be taken out of nature and converted into ownership if through this very process, the land is no longer untouched? The present paper attempts to wrestle with this vexing issue*

**Keywords:** Homesteading; virgin land; nature preserve; private property rights

**JEL Classification:** Q24

### 1. Introduction

According to libertarian theory if private property rights are to be properly conferred on unowned virgin territory, it must be done through a process of homesteading.<sup>1</sup> That is, the first one to occupy and “mix his labor with the land” becomes the proper owner it. What, specifically, must the homesteader do to establish his ownership rights over such a terrain? For agricultural purposes, he must clear the tree stumps, move away the big rocks, plow the land, seed it, and gather a crop from these efforts of his. For urban areas, he must build a road or a house or a

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<sup>1</sup> Block, 1990, 2002A, 2002B; Block and Yeatts, 1999-2000; Block vs Epstein, 2005; Bylund, 2005; Hoppe, 1993, 2011; Kinsella, 2003, 2006; Locke, 1948; Paul, 1987; Rothbard, 1973, 32; Rozeff, 2005

factory on it. To use the territory for a park, he must clear the land, build paths and bathrooms for his intended clients, place lighting there, etc. He is then and only then justified in calling the land his own, being able to legally repel invaders, etc.<sup>2</sup>

But there is a question that has had a bandit-like existence in libertarian theory for many years. Suppose the homesteader's purpose is none of these. Instead, he wants to "build," or "create," or, better yet, *preserve* some land in its purely natural form. He will not allow any customers to tread upon his territory, since to do so would be incompatible with a pure nature preserve. He will charge them a fee for keeping the land untouched; they will benefit from the mere contemplation of this offering. But how does he attain ownership of this land in the first place, if he cannot mix his labor with it, for that, too, would be incompatible with retaining this territory in its pristine state?

We are asking in effect, "How can homesteading theory be reconciled with the desire of some people to have land remain in its pure state, untouched by human hands?" For purposes of our analysis of this vexing challenge we assume, *arguendo*, the validity of libertarian homesteading theory.<sup>3</sup>

At first blush this indeed appears as an intractable problem. For homesteading requires a "mixing" of labor with the land, on the one hand. On the other, any such "mixing" would obviate the goal of being able to offer land to consumers exactly, precisely, as it was before any human action whatsoever occurred with regard to it. In this examination we posit the purpose of the land reserve is for contemplation purposes only. That is, the consumers of the services provided by such land would benefit only by knowing that such preservation has been accomplished. They could not "use it" in any other way. For example, were they to walk on it, it would no longer be exactly as nature had created it. It would not be sullied by human occupation, a defilement, at least to people who treasure this acreage uncontaminated by homo sapiens.

We will employ a two stage test to determine success.<sup>4</sup> For one thing, any plan must pass muster as legitimate homesteading. For another, it must satisfy the yearnings of those whose goal it the attainment of nature preserves being legitimately owned, so they will never be despoiled, at least for as long as their proprietors wish to maintain them in their pure state.

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<sup>2</sup> Suppose that the criterion for homesteading is that the farmer (A) plant and harvest three separate crops, over three years, before he can attain full ownership. He starts this process, and does so for two years, whereupon someone else, farmer B, comes to this land, shoves farmer A aside, and starts homesteading on his own account. Are farmer B's actions licit? No. As long as farmer A is duly in the process of homesteading, no one else may interfere with him.

<sup>3</sup> That is, we abstract from all critiques. For example, Nozick (1973) famously says, if I empty a can of tomato soup in the ocean, have I mixed my labor with the ocean and become its owner or I have foolishly wasted my tomato soup? Another example, the Henry Georgists (1879) oppose homesteading, since they disagree with private ownership of land. For a rejoinder to this claim, see Rothbard (1997).

<sup>4</sup> For another attempt in this regard, one we see as complementary to ours, see Wisniewski, Unpublished

In section II we put forth, but then reject, several possible solutions to our problem. The burden of section III is to answer, finally, this challenge. We conclude in section IV.

## 2. Failed candidates

Plans such as homesteading virgin territory by placing amenities for the use of people would not suffice. Paths, lighting, bathrooms, in a virgin forest would make it easier for most people to enjoy these surroundings, but they would be incompatible with the purpose for which this land is intended to be put.<sup>5</sup>

What about installing these amenities in order to homestead the land, but then removing them, entirely, so as to satisfy the desire for land *au naturel*? This might well satisfy *some* people with a yen for untouched land, but not the purists. Not for them this scenario; they would reject it on the ground that land that was once touched by human beings could no longer be considered unsullied.

Suppose, instead of paths, bathrooms, lighting, etc., an eruv<sup>6</sup> were placed around the plot of land destined to always remain in its natural state, and allow the person who does this to own the territory encircled, and viola!, the fondest desires of even the most committed Green in this regard would be satisfied. True. But this would be at the cost of sacrificing homesteading theory. For merely mixing one's labor with the periphery of an area does not confer on such a person the entire land mass *internal* to it (Block, 2008). For example, suppose that the first settler in the U.S. homesteaded a ring of land one mile thick encircling the entire country; he would still not get to own any of the fly over part of this nation. He would only legitimately possess the land he had actually homesteaded, that one mile deep perimeter.<sup>7</sup>

Posit, instead, that the would-be homesteader places popsicle sticks<sup>8</sup> all throughout the acreage to be homesteaded, enough of these, we stipulate, to satisfy the criterion of "mixing" one's labor with the land. He dare not go into this area to place these slivers of wood into the ground, lest he accidentally, horrors, trample down some blades of grass and thus rend it "unnatural." However, he could shoot them into the ground, from afar, using a suitably altered harpoon gun.<sup>9</sup> Afterward, these sticks could be removed, so as to satisfy the virgin territory look.

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<sup>5</sup> An objection to this entire line of thought might be that the idea behind homesteading is to put land to human *use* and leaving territory completely untouched by us is hardly conducive to that end. But, surely, at least *some* people would regard completely untrammelled land as productive. What of the objection that in the free market, such people have no way to *demonstrate* (Rothbard, 1977) this preference? Ah, but they *do*. They can donate money to a group of environmental purists that promises to retain land in its pristine natural condition.

<sup>6</sup> This is a string, or ritual enclosure placed around an area that allows Orthodox Jews to engage in acts within it (e.g., carrying objects) that would otherwise be forbidden; see on this: <http://en.wikipedia.org/wiki/Eruv>

<sup>7</sup> Nor could he prevent other would be homesteaders from having access to the internal land mass. Block, 2008.

<sup>8</sup> Completely natural ones, approved by greens of all types and varieties, of course.

<sup>9</sup> Powered by solar, wind or water, of course, not coal, oil or nuclear reactors.

While this would pass muster for homesteading, by stipulation, and would suffice for most of those who wish to contemplate virgin territory from afar, it would still not do for the purists. For the popsicle sticks, even though manufactured from wood, a natural product are still the product of (evil) humans and their machines. The land would thus remain infected forevermore by the dirty, greasy hands of members of our species. This would still hold true even if the wood was of local provenance.

How about cows? They are not manufactured. Yes, they are domesticated, but members of this species are still “natural.”<sup>10</sup> First, can one homestead land with one’s cattle, or is this strictly a do-it-yourself job? It seems clear that homesteading can be done indirectly. After all, not only farmland may be homesteaded. Ranchers who are located in areas with very sparse vegetation can also bring land into private ownership. Humans, too, may homestead for each other. If A hires B to go out and mix the latter’s labor on the former’s account, then, surely, A ends up as the owner, even though B did all of the “mixing.” B, in effect, homesteaded the land, to be sure, and, perhaps, from the philosophical point of view, was for a split second the owner of it. But then their contract kicked in and the land, if ever it was B’s, passed into the ownership of A. In any case, even when farmers “mix their labor with the land,” they do so *indirectly*. They use plows to turn the soil, saws to chop down trees, machines to clear away large rocks, etc. “Mixing” is not a synonym for “touching.”

So, yes, cows do indeed suffice for homesteading. However, even though they are “natural,” e.g., non human, they will still not suffice for the radical purists. These people would still discern in this scenario the foul smell of human beings.<sup>11</sup> For the bovines, while part of nature, do not emanate from the virgin land now to be homesteaded, and to remain in its untouched status; otherwise, homo sapiens could not bring them there.<sup>12</sup>

How about planting trees in the area to be used as a nature preserve? Trees are natural, of course. They can be planted from afar, thus obviating any too close “mixing” of human (ugh) labor with the terrain. Posit, *arguendo*, that this process would satisfy both the requirements of homesteading as a justification for land ownership and also, the goals of ordinary environmentalists. However, this option would stick in the craw of the radical purists. If the new trees are indigenous to the local soil they would be rejected on the ground of monoculture. If a different species, then, unnatural to the areas. Further, the trees, of whatever variety, would not have been planted but for the intervention of mankind. If they came into being from fully natural sources,<sup>13</sup> then there is no scope for ownership, one of our two desiderata.

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<sup>10</sup> They are not human, after all, and, thus, may be seem as part of the natural order, unlike our own species, at least in the eyes of radical left environmentalists.

<sup>11</sup> One wonders how they survive looking in the mirror.

<sup>12</sup> Another element of the radical left is to “buy local.” Extrapolating from this, we arrive at the motto, “homestead local.” Cows, unfortunately, are not found everywhere that nature preserves are sought. At best, they could but suffice for just a few.

<sup>13</sup> Seeds fall to the ground from extant trees and spring up into new members of that species.

### 3. The solution

At last, after clearing the decks in this manner, we arrive at what we regard as a solution to our two-part challenge of satisfying radical naturalists and the requirements of homesteading. Cows<sup>14</sup> will not cut the mustard, but beetles, frogs, ants, worms, snakes, butterflies, caterpillars and other such species will; the ones, that is, found in nature in the terrain to be converted to ownership. They are to be found *everywhere*.

How would this work? First, we capture them. We do so either with birds we have trained for this purpose<sup>15</sup> or by utilizing nets with long poles. Thus we homestead and thus come to own these creepy, crawly creatures. Subsequently, we *release* the members of these species we have previously homesteaded and thus now own to do our homesteading of the land for us. If cows are adequate under mere ordinary circumstances to establish ownership, why not these slugs, insects and other varmints?<sup>16</sup> We own these living things, they now “work” for us, whether they know it or not. Cows, too, are presumably unaware of the homesteading uses to which we put them. We release these creatures *right back where they came from, where we got them from*, thus obviating any objection on the ground that we are upsetting nature in this terrain.

Can radical environmentalists object? We think not. The species stem from the very area to be homesteaded. We have not, ourselves, entered into these sacred domains. We have not set so much as a toe there. Now yes, some of these purists might dismiss our Herculean efforts since we have in *some* very indirect manner interacted with the land in question. If so there is no satisfying them. However, we are confident that we have reconciled the seeming irreconcilable. We have applied homesteading theory accurately and have thus turned virgin land into owned territory. We have done so in a manner that does not directly interfere with hair or hide of this natural environment apart from capturing, and then immediately releasing right back where we found them, sufficient creatures to establish ownership of the land.

However, we must contemplate the possibility that the ultra, ultra Greens will still object to the forthcoming. With their microscopic vision, they will still discern the ugliness of human interaction with these land preserves. So, we introduce the last arrow in our quiver, so to speak, sound. It is possible to attract into (temporary)

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<sup>14</sup> Or sheep or goats or chickens or any other barnyard animal

<sup>15</sup> Is this feasible? The knowledge of the present authors is insufficient to answer this question. Also, we have too much respect for the niceties of specialization and the division of labor, and too much modesty about our abilities as biologists, to even undertake the research necessary to confidently respond to it. Suffice it to say that, perhaps, with new technology, this may become possible, even if it is not so at present.

<sup>16</sup> To deny this would be to indulge in “speciesism,” something that the present politically correct authors are loath to become guilty of.

captivity, as outline above, mammals and birds<sup>17</sup> without laying a finger on them, either directly or indirectly, by luring them into ownership through whistles and other types of voices. And, if this is still too much a violation of principle, as the noise emanates from human beings, ugh, after all, there is always the mechanism of decoys, as is commonly used in duck hunting. Only in this case, we do not shoot our feathered friends. We use them to homestead land for us.

Will even this satisfy the most fussy of purists? We do not know. But, we feel we have gone far enough to establish the seeming impossible: homesteading natural preserves by mixing our “labor” with them, without fatally undermining their naturalness.

#### 4. Conclusion

Most people who read the aforementioned will think we have lost our collective minds. Why spend so much time and electrons<sup>18</sup> to discuss an issue that no one will think to be of any importance? And again, the radical left environmentalists we have attempted to placate will not thank us for attempting to show that ownership through homesteading is compatible with their desires for nature preserves. Private property rights are anathema to their concerns.

We engage in this quest not to bring ease to such haters of the human species. We do so, instead, one, to probe further into the depths of homesteading theory, and two, to address an issue that has had a bandit like existence in the libertarian theory of homesteading. Can it, and if so how, be reconciled with the desires of some for nature preserves, untouched by any mixing of labor, on the one hand, and, on the other, with homesteading theory that requires some sort of “mixing?” We think this paper constitutes a step forward in the solution to this challenge.

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<sup>17</sup> [http://www.ehow.com/how\\_6866890\\_predator-calls\\_-call-fox-close.html#ixzz1VK1fbLFE](http://www.ehow.com/how_6866890_predator-calls_-call-fox-close.html#ixzz1VK1fbLFE); [http://www.google.ca/#hl=en&xhr=t&q=Bird+Whistles&cp=13&pf=p&scient=psy&site=&source=hp&aq=0&aqi=g5&aql=&oq=Bird+Whistles&pbx=1&bav=on.2,or.r\\_gc.r\\_pw.&fp=cab8d79b6906b781&biw=1280&bih=907](http://www.google.ca/#hl=en&xhr=t&q=Bird+Whistles&cp=13&pf=p&scient=psy&site=&source=hp&aq=0&aqi=g5&aql=&oq=Bird+Whistles&pbx=1&bav=on.2,or.r_gc.r_pw.&fp=cab8d79b6906b781&biw=1280&bih=907)

<sup>18</sup> In a previous era, we might have said, instead, waste so much paper and ink

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## ALBANIAN COMPETITION POLICY VERSUS IMPLEMENTATION OF THE COMPETITION LAW

Raimonda Duka and  
Erinda Bllaca\*

### Abstract

*Changes in the economic system have led to a number of sectoral reforms in Albania, including those in the market and regulatory environments. Given that foreign investors are mainly attracted by an open market, competition reform, in must include not only the adoption of competition legislation, but also the elaboration of a well defined competition policy, the creation and maintenance of a competitive environment and, in parallel with such reform, the establishment of a modern legal and institutional framework capable of supporting these developments. This article seeks to analyse the new Albanian competition framework and its approximation with EU law.*

**Keywords:** *Competition policy, competition law, concentration, agreemen, dominant position.*

**JEL:** *D41, D42, D43*

### 1. Introduction

Competition law comprises a set of rules that affect all aspects of the economy. Its context varies from one country to another, depending on the particular need of a given country, and its regional and international aspirations and obligations. In this context, all of the latest wave of EU accession countries<sup>1</sup>, which elonged in the twentieth century to the so-called “soviet bloc”, have adopted modern EU compliant competition laws and established attendant institutions as part of the harmonisation of their legal framework with the *acquis communautaire*. The legal basis of this harmonization is grounded in the European Association Agreement, subsequently enhanced and reinforced by the EU Commission’s White Paper on the “Preparation of the Associated Countries of Central and Eastern Europe for Integration into the Internal Market of the Union”.

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<sup>1</sup> Albania did, however, sign the Trade and Co-operation Agreement on October 26, 1992 [1992] O.J. L343/1 (of a different nature to the European Association Agreements). Since 1999 the relationship between Albania and the EU has been governed by the Stabilisation and Association process. In January 2001, the President of the European Commission, Romano Prodi, officially launched the negotiations for a Stabilisation and Association Agreement between the EU and Albania. These negotiations are presently ongoing. For more information see [http://europa.eu.int/comm/external\\_relations/sec/albania/index.htm](http://europa.eu.int/comm/external_relations/sec/albania/index.htm).

Given the fact that Albania was, in previous decades, pointed to as one of the worst examples of the communist economic system, recent legislative and framework revisions represent a significant improvement and appear to be a direct consequence of the Albanian Government's efforts to introduce a market economy.

## **2. What is the situation currently in Albania in the competition reform field?**

In 2002, the EU Stabilisation and Association Report for Albania concluded that “the development of competition policy in Albania remains at an early stage, despite the existence of basic legislation since 1995. Implementation is weak, due in particular to the clearly insufficient resources devoted to this area. Although the law provides for establishment of an independent Competition Office, this structure does not yet exist and competition issues are dealt by the Department of Economic Competition within the Albanian Ministry of Economy. This department remains poorly staffed and, as a result, enforcement of the law is extremely limited.”

A similar conclusion was drawn by the European Bank for Reconstruction and Development (EBRD). As part of its transition assessments, the Bank scored Albanian competition policy “2–” (i.e. 2 minus) in 2003, a mark which could be understood as indicating a grossly deficient law. Although the legal framework (i.e. “the law on the books”) is just one of the components in the scope of the EBRD survey, it should be noted that the survey, organised in the course of 2003, did not consider the more recent legislative changes, i.e. adoption of the 2003 competition law. These findings have also been, indirectly, supported by the Albanian Competition Department itself, which noted the following major weaknesses of the competition structure in Albania:

- lack of an appropriate legal framework;
- lack of an independent institution;
- lack of sufficient and qualified staff;
- lack of financial resources in conducting surveys for market data collection.(OECD)<sup>3</sup>

While some of these deficiencies appear to be resolved by the recent legislative changes, others will depend on the general growth of the Albanian economy and the practical implementation of the formal changes made to the competition framework over the medium to long term.

The recent legislative changes relate to the adoption of a new Law “On Protection of Competition” of July 28, 2003, No.9121, which entered into force on December 1, 2003 (the “2003 Law” or “new law”). This law fully replaced the previous Law “On Competition” of December 7, 1995, No.8044, (the “1995 Law”), generally considered as insufficiently applied given its ambiguity and apparent

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<sup>2</sup> See EBRD Transition Report 2003

<sup>3</sup> “Discussion paper—Contribution from Albania”, OECD Forum February 2004 ([www.oecd.org/dataoecd/49/48/24742637.pdf](http://www.oecd.org/dataoecd/49/48/24742637.pdf)).

contradictions. The initiative for the revisions to the competition legislation came from the Competition Department of the Albanian Ministry of Economy and the drafting work largely involved the assistance of the Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ).

The new law, mainly based on EU competition rules, aims to improve the legal and institutional framework for competition in Albania and permits improved implementation of competition policy. As in a number of other eastern European countries, the 2003 Law deals solely with economic competition, leaving unfair competition to the competency of Albanian Civil Code. Such division of competence is a significant departure from the former 1995 Law.

The general strategic aim of the competition policy in Albania is the protection of fair and effective market competition, defining the rules of conduct by undertakings, as well as the institutions responsible for protection of competition and their competencies<sup>4</sup>.

As an obvious improvement, compared with the 1995 Law, the 2003 Law provides for a range of comprehensive definitions. Moreover, unlike its predecessor, the 2003 Law applies to any entity, public or private, engaged in commercial activity, as well as to any associations thereof. Similar to the old framework, in addition to entities established in Albania, the law is applicable to foreign entities whose activities have an effect on the Albanian market (“effect doctrine”).

While, like its predecessor, the 2003 Law applies to agreements and concentrations between entities engaged in commercial activity, the significant novelty attaches to the introduction of the concept of abuse of dominant position and the provision of a legal basis for an independent competition authority. These changes, on the face of it, appear to reflect current thinking that the dynamic and constantly changing nature of the modern marketplace requires a continuously evolving competition policy and legal framework.

## **2.1. Agreements**

More than a decade ago the level of detail required for the alignment of an accession country’s competition legal framework to that of the European Union led to heated discussions throughout central and eastern Europe. One of the most pressing questions was: should the drafters “transfer” every single detail of *acquis communautaire* without deeply examining the competition-related issues which could arise in a particular country, and which—in the majority of cases—arose because of specific legal frameworks applying in eastern Europe prior to the demise of the Soviet Union?

More particularly, in a specific area such as competition law, the question was whether legislative drafters should, in the process of harmonisation, refer solely to the EU Treaty and attendant regulations or also include reference to the European

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<sup>4</sup> Law No. 9121, date 28.07. 2003 “On Competition Protection”, article 1

Commission's guidelines and the European Court of Justice's jurisprudence? More to the point, what character should competition law have: strict or lax?

While these questions have been largely dealt with, in one way or another, in the context of the greater accession process, these issues are currently still animating discussion in a number of countries, both within and without the accession grouping; Albania is a recent such example.

Following the model of EU competition law, the 2003 Law is relevant to any type of agreement: formal or informal, tacit or explicit, horizontal (i.e. agreements between entities operating on the same level of production) or vertical (i.e. agreements between entities operating on different levels of production) which may prevent, restrict or distort competition in the market. Unlike the 1995 Law, the application of the law is no longer restricted to particular sectors, such as the agriculture, forestry or food sectors.<sup>5</sup> Furthermore, the new legislation also extends to entities in public services, including electricity, gas and water.<sup>6</sup>

A particular novelty of the law is the introduction of a black list (agreements falling under the black list are prohibited and are void) and a grey list (agreements falling under the grey list are invalid unless the competition authorities issue an exception list). To obtain an exception, entities must notify their agreements to the competition authority. While the law provides for specific treatment of agreements on intellectual and industrial property rights, for which the exception is granted automatically if the competition authority does not reply within three months of notification,<sup>7</sup> all other agreements falling under the grey list must be explicitly exempted by the competition authority in order not to contravene the law. It is notable that the new law does not provide for a white list (agreements not restrictive of competition, per se). Given the relative infancy of the new law and its application it remains to be seen how the new competition authority will deal with agreements that do not fall under the black or grey lists.

## 2.2. Concentration

A very important innovation in the new law concerns concentration of undertakings. A number of clear provisions have been incorporated in the new Albanian competition framework enabling such concentrations to take place effectively. In this respect the new law appears to have, essentially, replicated the provisions of EU Council Regulation 4064/89.<sup>26</sup> That Regulation and its subsequent amendments defines an operation of concentration as: **(i)** the merger of two or more undertakings or parts of undertakings hitherto independent of each other; **(ii)** any transaction when one or more undertakings acquires, directly or indirectly, a controlling interest in all or parts of one or more undertakings; or, **(iii)** joint ventures exercising all the functions of an autonomous economic entity. The EU definition of

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<sup>5</sup> 1995 Law, Art.51

<sup>6</sup> Ibid, 1995 Law, Art.51.

<sup>7</sup> 2003 Law, Arts 7 and 50

control has also been introduced in the new law. Such inclusion of EU provisions in this respect has not been the norm in certain other eastern European laws, where interaction with the relevant commercial code did not permit the introduction of the EU “control of undertaking” definition.

The new law replaces the previous merger notification threshold and establishes a new one requiring approximately €500 million (Lek 70 billion) annual worldwide turnover for all entities involved in the concentration (or €5.8 million (Lek 800 million) annual turnover in Albania for all entities involved in the transactions) and approximately €3.6 million (Lek 500 million) annual turnover in Albania for one of the entities involved in the transaction.<sup>8</sup> In the new law legislators have duly decided to specify a methodology for calculation of turnover, including situations when participating undertakings (which are also defined)<sup>9</sup> are part of a group, as well as for the turnover of credit institutions, other financial institutions and insurance undertakings. The new law provides for a pre-merger notification procedure. The competition authority must decide on a concentration within a two-month period from the notification. At the end of such period the competition authority is required to take a decision on the proposed merger: either to continue its investigation for another three months or to issue an authorisation.<sup>10</sup> If the authority fails to take any decision within two months of the notification, the proposed concentration becomes effective and operational.<sup>11</sup>

### **2.3. Abuse of dominant position**

This is also an area where core changes to the legislation have been made. Most notably, a dominant position is no longer prohibited per se. Unlike its predecessor law, the new legislation prohibits only the abuse of a dominant position and provides for a non-exhaustive list of examples of such abuse.<sup>12</sup> It can be further noted that provisions implementing the concept of “essential facilities” have been included in the body of the new law.<sup>13</sup>

The decision whether or not to incorporate this provision in the main competition law, given its jurisprudential origin in the European Union itself and its sensitive anti-monopolistic character, has been debated in a number of eastern

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<sup>8</sup> 2003 Law, Art.12.

<sup>9</sup> The definition of participating undertaking, provided by 2003 Law, Art.12(3) includes: (i) the undertakings merged, in the case of a merger; (ii) the undertakings which acquire control and those subject to the control, in the case of control of acquisition; (iii) part of the undertaking, if the transaction has influence on it.

<sup>10</sup> 2003 Law, Art.56.1.

<sup>11</sup> *ibid.*, Art.56.3.

<sup>12</sup> 2003 Law, Art.9.

<sup>13</sup> 2003 Law, Art.9(2): “Such abuse may, in particular, consist in: . . . refusal to allow another undertaking access to its own networks or other infrastructure facilities of undertakings with a dominant position, against adequate remuneration, provided that without such concurrent use the other undertaking is unable to operate as a competitor of the undertaking with a dominant position”.

European countries. For example, a similar provision was removed from the draft Czech Competition Law after heated debate in the Parliament.<sup>14</sup>

Currently, it continues to be discussed by legislators and may be added as a future amendment to the Czech law.

#### **2.4. A new competition authority and its increased powers**

Much has already been written on the importance of institutional building in eastern European countries and this article does not seek to repeat it. However, it is worth emphasising that successful market openness should be accompanied by full regulatory reform, including an adequate legal framework and strong, independent and democratic implementing institutions, specifically sector-specific regulators and competition authorities. It would appear that the legislature has followed western models with respect to the new competition authority.

As previously mentioned in the Law, since its establishment the activity of Competition Authority has been concentrated on the implementation of the law “On protection of competition” relying on three main pillars which determine the protection of competition: abuse with the dominant position; prohibited agreements in the form of cartels, merging or concentration of enterprises.

The mission of the Competition Authority is the protection of free and effective competition in the market through the implementation of the legislation on competition. Such legislation defines the rules of conduct to ensure the juridical protection of competition. These rules are defined for both undertakers and the State bodies. In relation to the latter, these rules concern the promotion of horizontal policies that motivate competition through liberalization, improvement of practices for public procurement, the ensuring of a pro-competition approach in privatization processes and an overall enforcement of legitimacy.

### **3. Increased enforcement measures**

Unlike its predecessor law, which did not provide for appropriate powers of investigating and imposing sanctions, the new law provides such increased enforcement powers. An investigation can now be opened by the competition authority not only on the basis of a formal complaint but also by the authority *ex officio*.<sup>15</sup> Further, the new law empowers the competition authority to enter into premises during an investigative procedure,<sup>16</sup> seize documents to be accepted as evidence in proceedings, compel witnesses to testify or require sanctions to be imposed for a delayed or incomplete provision of relevant documents by the entity being investigated.

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<sup>14</sup> Czech Competition Law entered into effect in July 2001. For more details see JUDr. Jindřiska Munková, “Czech Republic: Competition rules in transition”, *Law in Transition*, Spring 2004.

<sup>15</sup>1995 Law, Art.60.

<sup>16</sup> 2003 Law, Arts 36 and 37.

Generally, the sanctions provided for in cases where entities contravene the legislation, range from fines (which have been increased by the new law), obligations to act or refrain from acting in a particular manner, interruption of contractual relationships, to ordering concerned entities to take the necessary steps to restore the status quo ante, in particular to conduct the separation of merged entities or rescind from participations or acquired assets. Criminal responsibility can no longer be imposed in the case of violation of Albanian competition law.

Following a strategy of seeking to reinforce overall enforcement of competition legislation, the new law provides for a significant element of judicial remedy. Parties who have suffered loss through anti-competitive behaviour of a particular entity can seek compensation against that entity from the civil chamber of the First Instance Court of Tirana District. This entitlement to seek a judicial remedy is in addition to the traditional administrative procedure before the competition authority and such procedure can run independently of the administrative procedure(s) undertaken by the competition authority.

However, the requests for exemption from prohibition of an agreement and the procedures on control of concentrations are not within the jurisdiction of the courts. The effectiveness of this new mechanism is yet to be observed. Establishment of an independent competition authority an additional core change to the legislation is the revision of the institutional structure responsible for application of the competition law.

Unlike the pre-existing structure, where the Directorate of Economic Competition was part of the Ministry of Economy, the new law provides for an independent competition authority, directly appointed by and accountable to the Albanian Parliament.

The new competition authority is to be comprised of two bodies, the Commission and the Secretariat.<sup>17</sup> The Commission will be the decision-making body of the authority (elected by the Parliament), whereas the Secretariat is the administrative and investigative body (i.e. having market monitoring and investigative powers). The duties and responsibilities of each body are regulated by the new law. Based on the investigation results provided by the Secretariat, the Commission can adopt appropriate decisions, which can be appealed within 30 days of the notification of the decision at the administrative chamber of the First Instance Court of Tirana District.

The new law also provides all due procedures that allow the effective investigation of cases, fines categorised according to seriousness of infringements, and provisions related to leniency.

Another area of the new law which is also worthy of note relates to specific provisions on co-operation between the competition authority and other institutions. This co-operation includes exchange of information with corresponding authorities, suspension or termination of proceedings in co-operation with other authorities, the

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<sup>17</sup> 2003 Law, Art.18.

nature of the relationship with other regulatory authorities, and provision for other bodies to seek the competition authority's opinion on any relevant issues. The latter provision is of particular importance in the light of international competition advocacy developments.<sup>18</sup>

Relations with other national regulatory bodies are also a crucial point supporting an effective and unambiguous application of the legal framework.

#### **4. Institutional developments in the competition national policy of Albania**

By virtue of Article 24, point a, Competition Commission approved, by decision no 43, dated 28.12.2006, the document of the Competition National Policy. This is the first document of the competition policy in Albania and it has been compiled based on the similar experience of the regional countries which are a couple phases advanced in the process of European integration (such as Croatia, Bulgaria, Rumania etc), as well as the specific features of the developments in the competition culture and legal infrastructure in Albania. With reference to these special features, the Competition Authority tried for this Competition National Policy to be all-inclusive. To his effect, this document was subject to a discussion and exchange of opinions with all the interested parties (potential stakeholders in the market), such as: ministries and regulatory entities, business community, consumers' associations, legal firms, etc, reflecting their opinions in this document. Competition policy represents the short and medium term vision of protection of competition in Albania. There are reflected the main directions of the activity of Competition Authority in order to explain to the enterprises of the private and public sector, the possibility to carry out their economic activity on the basis of a free, effective and fair competition. The competition policy aims at preventing the market stakeholders from abusing with their dominant position, to enter into agreements which have as a consequence the setting of prices or establishing a market structure where the competitors join each other (through concentration), thus distorting the competition in the market.

A very important objective of the competition policy is the increase of the economic wellbeing of the society, developing the increase of competitiveness, ensuring equitable rules of game in the market, promoting the technological evolution, increasing the possibility for the selection and quality of the products and services and achieving potentially market equilibriums which are a prerequisite to setting as real prices as possible. In this context the competition policy consists an important factor in the economic development of the country. At the same time, aiming at steady boosting of competitiveness in the economy of the country, the

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<sup>18</sup> "Competition advocacy refers to those activities conducted by the competition authority related to the promotion of a competitive environment for economic activities by means of non-enforcement mechanism, mainly through its relationships with other governmental entities and by increasing public awareness of the benefits of competition", definition provided by International Competition Network, Questionnaire on Competition Advocacy ([www.internationalcompetitionnetwork.org/advocacyquestionnairem.pdf](http://www.internationalcompetitionnetwork.org/advocacyquestionnairem.pdf)).

competition policy can make a very important contribution in improving the macro-economic indicators such as that of the total level of prices, level of employment and economic increase.

The competition policy, along with the monetary, fiscal and commercial policies, has been considered as the fourth stone of the foundation of the public policies. This makes it necessary that its main principles should be taken into consideration from the various public institutions to draft and implement other economy related policies, to the effect of harmonising their objectives to those of the competition policy, achieving in this way the final aim of governmental performance which is the increase of the sustainable wellbeing.

The Policy of Competition is closely connected to the policy of state aid and for this reason, while dealing with the policy of state aid, there should be taken into accounts the importance of establishing equal conditions for the enterprises to the effect of promoting competition. The competition policy should be taken into account in drafting the strategies of regulatory entities in different sectors of the economy and in this context the cooperation of Regulatory Entities is of special importance.

## **5. Conclusions**

The new basis for the implementation of competition policy in Albania has now been established. Going forward, it is crucial that these foundations continue to be built upon without neglecting the experience of other eastern European countries<sup>19</sup>. The new legal framework for competition in Albania appears to be an admirable effort at addressing a major part of the legal bottlenecks experienced previously. Representing a significant improvement over the 1995 Law, its successful implementation will determine the overall success of competition structure/policy in Albania. The responsibility for successful enforcement lies not solely with the competition authority, but also with government, the courts and other regulatory institutions and, in certain countries, privatisation agencies<sup>20</sup> whose willingness to co-operate in implementation is crucial. While a competition culture is developing, the introduction of explicit “legal provisions on co-operation” in the body of competition laws themselves can be seen as a current general trend in eastern European countries. In that sense, it is recommended that the Albanian competition authority should not only co-operate regarding cross-border transactions but also seek assistance from international organisations, the European Commission and foreign competition authorities regarding the practicalities of implementation and related problems that can arise.

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<sup>19</sup> <http://www.ebrd.com/country/sector/law/articles/dajkovic.pdf> last accessed march 2008

<sup>20</sup> The competition authority had played a role in privatization process and liberalisation in a number of cases by providing its comments for reforms in strategic sectors of the economy, which could be accompanied by non-competitive effects (e.g. in the case of the privatisation of the Savings Bank, Albtelecom, in Albania)

In the light of international developments in the field, the organisation of international roundtables and seminars in eastern European countries appears to have produced positive results on the general development of the competition culture. These should be continued, replicated on a south-eastern European basis and also organised at national level, in addition to dissemination of information on the internet and through the specialised press.

In conclusion, if a large-scale assessment of Albanian competition law vis-à-vis EU competition law were carried out today, Albania would likely achieve a relatively high position compared with other eastern European countries. However, as discussed earlier, an entire competition policy evaluation, such as the one conducted by the EBRD, is not founded solely upon extensiveness (i.e. the “law on the books”) but looks also to effectiveness. It has, therefore, yet to be seen whether the implementation of this new framework and any progress in the general introduction of competition to the Albanian market measures up. In that respect, the responsibility lies with the Albanian Government, to demonstrate the political will and commitment to implement fully the framework contained in the law. This it can do in a tangible meaningful form, particularly by dedicating sufficient financial and human resources to support the appropriate implementing institutions.

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## PRESENT STATUS OF SMALL AND MEDIUM SIZE ORGANIZATIONS (IMMS) AS REPORTED TO THE PROJECT MANAGEMENT UNDER THE CONDITIONS OF THE NEW ORGANIZATIONAL CONTEXT

Anca Cruceru\*

### Abstract

*Starting from “the mutations” that are likely to appear inside the project in the context of the information – based economy, society, organization and management, there has been achieved a research at the national level since the main goal consisted in observing, on the one hand, the present status of the small and medium size organizations with reference to the project management, and, on the other hand, in underlying their capacity to assimilate these modifications particularly to be able to adapt to the changes that the new organizational context shall impose.*

**Keywords:** IMMS, „mutations”, project management, new organizational context

**JEL Classification:** C01, C10, D80, M10, O20, O30

### 1. Introduction

Based on thorough research on the theoretical concepts related to the organization and management that are based on information, on change and on change management, on the intellectual capital measurement and evaluation, and on the project management, there have been set several “mutations”<sup>1</sup> (modifications) that might appear in the project, and in the project management, as well, out of which some are worth mentioning:

- The information shall stand for the main element that shall assist in the project planning, running and finalization;
- As far as a project is concerned, the information shall fulfill and play the following roles: raw material, production factor and finite product;
- The organizations shall run projects by applying to mixed teams;
- The open culture principle shall be promoted for any project;
- The project integration in the organization frame shall be possible by means of implementing the organizational structure referred to as “organization per projects”;

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<sup>1</sup> Anca Cruceru, 2011

- The project team members shall become information – based employees, and the project manager shall turn into information – based manager;
- Both as concerns the knowledge zones and the project management processes, too, there shall be used all the resource categories, the information resource included, and they shall all bring their contribution to the carrying out of the life cycle of the project;
- In order to fulfill the project purpose, there must be carried out actions to capitalize the intellectual capital, etc.

Considering the foregoing ideas as a starting point, research has been done at the national level, and it referred to the IMMs' status ("by a small size organization it is understood that firm that contains 49 employees, at the most; by a medium size organization it is understood that firm that contains between 50 and 249 employees"<sup>2</sup>) as concerns the project management within the new organizational context (economy, society, organization and information – based management).

## **2. The present status of IMMs – as reported to the project management under the new organizational context**

Research target:

This research has been realized with the purpose to set the present status of the IMMs, particularly with reference to the below listed aspects:

- Which is the number of companies that develop projects; which is the number of projects that are being run; and which is the typology of the projects that are being run by these ones;
- To what extent the project management theoretical fundamentals are being used while running the respective projects;
- Whether the difference between the concepts of management by project and project management is common knowledge;
- Which is the companies' capability to incorporate, create and develop projects, and, at the same time, to obtain competitive advantages based on these ones;
- Whether the content of information – based concepts such as: economy, society, organization and management is known;
- Which is the possibility that companies be able to adapt to the information – based organization;
- Which is the companies' capability to apply an information – based management;
- Whether it is necessary to create competitive advantages by determining and evaluating the companies' intellectual capital;
- To set interdependences between the above mentioned elements.

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<sup>2</sup> Ovidiu Nicolescu, Ciprian Nicolescu, 2008

**Research relevance:**

This research has brought its contribution to consolidating these “mutations” that have been briefly presented above, and, at the same time, to determining their usefulness and applicability inside the IMMs. This being the context, the research relevance consists in the possibility to indicate the number of companies that should adapt their project management techniques to the new world – wide tendencies, while using the previously listed ideas as concerns the predictable modifications of the project and of the project management inside the information – based organization, while the target is to increase their performances and to set as many competitive advantages as possible. Also, this research has pointed to those companies that have failed to adapt / are not willing to adapt to the changes that the new organizational context imposes.

**Research development:**

This research was carried out in 2009, and it was of a descriptive – exploratory nature. As concerns this research, the evaluation of the information sets, from the quantity and quality point of view, was done with the help of nominal, ordinal and interval scales. The research was based on the dissemination and analysis of a questionnaire that contained 36 close and open questions; dichotomy, trichotomy questions and questions with multiple answers; introductive questions of the pass, information and classification type; and test questions of the filter type.

The research survey included 154 sample companies; this number was agreed to with specialists from the National Council of Small and Average Private Organizations from Romania (CNIPMMR). The organizations within this sample were selected, preponderantly, from those companies whose activities related to consultancy services for financial, fiscal and management domains, this action was directed towards the small and a average size companies that provide such services. All the same, this sample also contained companies that do not provide consultancy services since, at a certain moment, within its life cycle, any company might develop and run such projects.

The questionnaires have been disseminated to the companies by way of the Internet – the e-mail addresses that CNIPMMR made available.

Out of the set sample of organizations, only 102 companies have answered the disseminated questionnaire.

The IBM SPSS Statistics provided soft was used to analyze, correlate and set the differences between the companies’ answers.

Further to the careful examination of the results that have been obtained by applying the SPSS software (frequency of answers, descriptive statistics – Frequencies and Descriptives), the below listed information has been collected:

- The highest percentage (64.71%) goes to those companies whose domain of activity is consistent with “7022 CAEN Code – Consultancy activities in Business and Management”; the remaining companies register a relatively low percentage, that is to say: 6920 – 11.76%; 7810 – 2.95%; 7490 – 1.96%; 8299 – 1.96%; 8559 – 1.96%; and the following CAEN Codes: 7312, 6399, 7021, 3299, 7430, 6209, 4322, 4651,

5829, 6311, 4120, 240, 7219 and 6420 represent, each, 1% of the total number of companies;

- The persons who have filled in the questionnaire had the following positions: 60% - Administrators and 40% - General Managers;

- The turn-over values that the companies registered for the past year were consistent with the below listed ranges: 0 – 50,000 RON – 17.6%; 50,001 – 100,000 RON – 12.7%; 100,001 – 200,000 RON – 15.7%; 200,001 – 300,000 RON – 7.8%; 300,001 – 500,000 RON – 6.9%; 500,001 – 1,000,000 RON – 14.7%; the highest percentage is detained by those companies whose turn-over value exceeds 1,000,000 RON – 24.5%;

- The weight of the average number of employees is: 1 - 10 employees – 83.3%; 11 – 50 employees – 13.7%; 51 – 150 employees – 2%; more than 151 employees – 1%;

- 27.25% of the companies register a labor productivity that ranges between the interval 0 – 100,000 RON; 23.52% - the interval 100,001 – 500,000 RON and 1.96% - the interval 500,001 – 1,000,000 RON; due to the optional nature of this question, 47.07% of the companies have not provided any answer;

- 79.4% of the companies are micro organizations; 17.6% are small size organizations; 2% are average size organizations; and 1% are big organizations;

- Only 64.70% of the companies have submitted their organizational structure; 64.70% of the organizations have failed to grant the adequate attention to this question;

- At the level of the companies, 80.32% of the personnel structure is made up of women, and 90.19% of the personnel structure is made up of men;

- As concerns the personnel structures per groups of age, the companies register the following percentages: 18 – 25 years – 17.64%; 26 – 35 years – 69.90%; 36 – 45 years – 93.13%, and over the age of 46 years – 20.58%;

- As concerns the personnel structures per length of service, the companies register the following percentages: “up to 1 year” – 2.94%, the interval “1 -5 years” – 86.27%, the interval “6 – 9 years” – 62.74%, and “more than 9 years” – 6.76%;

- As concerns the employees’ education level, the companies register as follows: 33.33% - “high school”; 98.03% - “university”; 39.21% - “master degree”, and 12.74% - “other post university courses”;

- As concerns the domain of activity, 29.41% of the companies have listed the most frequently services that the clients request, while 70.59% of them have ignored this question;

- The companies have appreciated the financial – economic situation as follows: 4.9% - the proposed mark was 5; 20.6% - the proposed mark was 6; 32.4% - the proposed mark was 7; 26.5% - the proposed mark was 8; 11.8% - the proposed mark was 9, and 3.9% - the proposed mark was 10;

- 57.84% of the companies use the management by way of targets as the management method; 12.74% use the management by way of budgets; 31.4% use the management by way of projects; 4.90% use the management by way of exceptions; 15.68% use the participative - type of management; 32.35% use the analysis – diagnosis method; 41.17% use the meeting – type method; 5.88% use the assigning – type method; 3.92% use the brainstorming – type method, and 8.82% use other management systems, methods and techniques that have not been mentioned in the questionnaire; as far as this question is concerned, the following aspect has been noticed: a rather low number of the responding companies applies only one exclusive management method;

- Only 52% of the companies are being running one or more projects;

- The companies register the below listed weights when they come to analyzing the number of projects they are running: 1 project – 15.7%; 2 projects – 11.8%; 3 projects – 10.8%; 4 projects – 6.9%; 5 projects – 2%; 6 projects – 1%; 7 projects – 1%; 8 projects - 1%, 10 projects – 2%, and 48% of the companies were not supposed to answer since this question was conditioned by the previous one;

- The typology of the projects that has been approached / is being approached within the companies has the following weight: 11.76% - public financing – based projects; 17.64% - private financing – based projects; 22.54% - organizational projects; 4.90% - informatics projects; 32.35% - development projects; 23.52% - investment – based projects; 28.43% - other types of projects; and 41.17% of the companies have not run / are not being running projects;

- The companies have established that they had observed the theoretical fundamentals of the project management in accordance with the below listed percentages: 1% - the proposed mark was “3”; 2.9% - the proposed mark was “5”; 14.7% - the proposed mark was “6”; 27.5% - the proposed mark was “7”; 12.8% - the proposed mark was “8”, and 41.2% of the sample of companies were not supposed to get back with an answer to this question;

- Only 41.17% of the companies grant a rigorous attention to the planning of the human resources that are involved in the projects;

- Only 20.6% of the companies use a software that is dedicated to the de Project Management;

- Out of the 20 responding companies, only 21.6% use the Primavera Project, whereas 11.66% of them use the Microsoft Office Project;

- Only 44.10% of the companies under survey grant special attention to the management of the quality of the project / projects;

- Out of the 60 responding companies, 96.66% carry out the execution program of the project / projects by using the Gantt graph; 21.66% - apply to C.P.M.; 13.33% - apply to P.E.R.T., and 13.33% - apply to graphical methods; the following aspect has been noticed in connection with this question: a very low number of the responding companies apply exclusively to only one planning method;

• Out of the 60 responding companies, 71.66% approximate the costs in order to be able to draw the project budget by applying to the analogy valuation method; 23.33% - to do the same as above, they apply to the parametrical valuation method, and 3.33% - to do the same as above, they apply to the definitive valuation method; the following aspect has been noticed in connection with this question: a very low number of the responding companies apply exclusively to only one valuation method;

• Only 9.80% of the companies draw response strategies to project – related risk situations;

• Only 46.1% of the companies are aware of the difference between the concept of the management by way of the project and the concept of project management;

• The companies that would be interested in integrating the projects to the best of their abilities, and to develop their own capabilities to run the respective projects with the purpose to obtain one or several competitive advantages do not exceed more than a percentage of 46.07%;

• Out of the 60 responding companies, 61.66% have had no idea regarding the measures they should have taken to be able to incorporate the projects to the best of their abilities and, also, to attempt to develop their own capabilities so as to consequently carry on projects, whereas 21.66% have not submitted any answer to this question;

• Only 60.8% of the companies are aware of the content of concepts such as: economy, society, organization and management, concepts that are information based;

• Only a percentage of 19.6% of the companies consider that they can adapt to the information – based organization without having to modify anything from the economic, financial and managerial point of view; 50% - consider that they can do that only if they partially or totally re-draw the activities they develop; and 30.4% - consider that they are not prepared for this major modification, at least not yet;

• Only 85.3% of the companies consider that the ideas that the new organizational context is attempting to enforce would favour the increase of their performances;

• Only 86.3% of the companies think that the implementation of a project management would be necessary; however, the condition would be that this imply the application of the management by way of projects as a management method;

• Only 69.4% of the companies assert that they own the information that is necessary in view of implementing an information – based management;

• Only 71.6% of the companies consider that the measurement and valuation of their intellectual capital would help them obtain a competitive advantage that is so necessary on a saturated market where the competition is so fierce and the request is continuously going down.

Research conclusions:

All the foregoing information sets, together with the ones that have been collected based on correlations, cross interrogations and on the methods that certify the existence / inexistence of discrepancies between certain questions and answers (Correlations, Crosstabs and ANOVA), have made it possible to establish the below listed conclusions to be drawn with reference to this research:

- since the questionnaires have been filled in by the companies' administrators or by their general managers, the answers can be considered as pertinent;
- the domain of activity, herein referred to as "7022 CAEN Code – Consultancy activities in Business and Management", has been identified at the majority of the responding companies;
- the domains and objects of the companies' activities exercise influence on the types of projects that have been or are being approached within such companies, while it is the weights that have been registered, in case of organizational, development and investment projects, that have been proven significant;
  - approximately 80% of the companies are micro organizations;
  - the companies that have registered a turn over that is bigger than 1,000,000 RON have obtained a majority weight;
  - the business turn over that the companies have registered has been determined, to a great extent, by the number of projects that the respective company has been developing;
  - almost all the companies have an average number of employees that ranges between 1 and 10;
  - the companies that register a higher number of employees indicate an increased capacity to develop and run projects, and, as a consequence, the big number of projects that the company is developing proves their higher capacity to absorb projects, and, therefore, provides more competitive advantages to these ones;
  - the more experienced and skilled the companies' employees are (namely a superior education level combined with an average age), the easier it shall be to such companies to adapt to the changes that the new organizational context imposes;
  - the intellectual capital capitalization within the companies is limited by the number of employees, and the effects of such a capitalization refer to obtaining competitive advantages and to increasing their diversity (specializations, held positions, etc.);
  - the majority of the companies has appreciated the economic – financial and managerial situation at the level of the mark "7" – favorable situation;
  - the companies' financial – economic and managerial situations are conditioned, among other things, by the employees' level of training, by their capacity to apply the methods, systems and management techniques that are being used within such companies;

- the method of the management by way of projects is used only by 32 companies;
- only those companies that are aware of the difference between the concept of management by way of projects and the concept of project management shall consider as relevant the introduction of the project management;
- the more extensively the companies have used more project management information sets, the more such companies have managed to better plan the human resources, have realized the need to use a project management software, have granted a particular attention to the project quality management, and have managed to establish, more correctly, the execution projects, have estimated, with more accuracy, the costs related to the said projects, and have drawn strategies to handle risk situations while better understanding the usefulness of these ones to run the projects;
- the choice to use a Project Management software is conditioned too by the turn over that the companies register;
- to adapt to the new organizational context, the great majority of companies shall have to re-draw and re-consider, partially or totally, the activities they develop;
- approximately 85% of the companies consider that the ideas that the new organizational context imposes would be favorable to the increase of their companies' performances;
- the more the companies shall increase their capacity to adapt to the information – based organization, the more such companies shall acquire the information they need to apply the information – based management;
- approximately 72% of the companies consider that the intellectual capital measurement and valuation could assist to the bringing-up of competitive advantages; this way, to be able, on the one hand, to adapt to an information – based organization, and, on the other hand, to be able to implement an information – based management, the companies shall have to capitalize the intellectual capital purposefully to obtain an increase of the performances, as well as certain competitive advantages that would be useful in the context of a saturated market where the competition is fierce, and more than that, where the request is continuously going down.

The conclusions of this research, together with the “mutations” that might appear in a project and to the management of this one, have made it possible to enunciate the following assertion: out of the 102 responding companies, approximately 60% could apply the modalities mentioned at the beginning of this article since they are ready to adapt to the information – based organization; they could do that either without changing anything from the economic – financial point of view, or by partially or totally re-draw the activities they develop.

### 3. Conclusion

Due to the fact that the data basis that has been used in order to carry out this research is pertinent from the statistic point of view (as it has been set together with

CNIPMMR specialists), it turned out that the conclusions (results) of the research could be generalized as far as the economic and social practice is concerned.

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## GLOBAL ECONOMIC CRISIS – ANTI CRISIS MEASURES AND ECONOMIC RECOVERY PROGRAMMES

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### Abstract

*By definition, economic policy is “the sum of measures taken by state authorities in order to guarantee economic growth, employment, balancing the balance of foreign payments, prices stability, decreasing the discrepancies and also guaranteeing national independence” (Macroeconomic dictionary – A. Bacescu, M. Bacescu). Summarizing, we may state that economic policy is represented by the behavior of state authorities within the functioning of the economy of the country.*

*Anti crisis economic policies structure the mechanisms and instruments that state authorities use in order to diminish the shocks generated by the economic decrease.*

**Keywords:** Crisis, anti crisis measures, fiscality, competition, deficit, investments, capital.

**JEL Classification:** E 30

### 1. Introduction

By definition, economic policy is “the sum of measures taken by state authorities in order to guarantee economic growth, employment, balancing the balance of foreign payments, prices stability, decreasing the discrepancies and also guaranteeing national independence” (Macroeconomic dictionary – A. Bacescu, M. Bacescu). Summarizing, we may state that economic policy is represented by the behavior of state authorities within the functioning of the economy of the country.

### 2. Anti crisis economic policies: theoretic approaches

By definition, economic policy is “the sum of measures taken by state authorities in order to guarantee economic growth, employment, balancing the balance of foreign payments, prices stability, decreasing the discrepancies and also guaranteeing national independence” (Macroeconomic dictionary – A. Bacescu, M. Bacescu). Summarizing, we may state that economic policy is represented by the behavior of state authorities within the functioning of the economy of the country.

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Anti crisis economic policies structure the mechanisms and instruments that state authorities use in order to diminish the shocks generated by the economic decrease.

- Stabilization conjunctural policies
- Austerity policies
- Mixed policies
- Structural adjustment policies.

*Stabilization conjunctural policies* are based on the Keynes doctrine, target mainly stopping the inflation and recession and are characterized by state intervention on the three global aggregates: demand, production and employment.

State intervention on global demand is made especially through direct expenses, targeting the stimulation of investments. The intervention on consumption is made by creating jobs in the public sectors or by reducing taxes.

There is also the option of direct intervention on consumption, which is done by redistribution policies.

*Austerity policies* target reducing inflation and support competitiveness by reducing the wage, the latter being the social price paid for poor international specialization.

*Mixed policies (neo-keynesian)* are based on combining several economic policies that have as common features de-inflation and controlled wage increasing that would prevent inflationist shocks. This type of hybrid policy follows the three aspects: rentability, investments and employment. The mixed policies approach was based on the economic situation in the USA between 1979 and 1982, when the economy reached a record inflation (15%) which led to the implementation of a Friedmann-inspired monetary policy, raising the interest rate (three years in a row); at the same time, it had a certain global impact, by amplifying the foreign debt crisis. As a consequence, in 1983, following the severe impact on unemployment, a package of intervention measures was developed, measures combining the increase of the monetary supply with high budget deficit.

*Structural adjustment policies* were also initiated in USA, being forced by the structural changes existing at the time, and which required governmental support.

The demand-oriented policy used until then no longer addressed the economic needs, and therefore the target became the supply, by “supply-side” policy, which was developed, at theoretical level, by specialists such as Laffer and Craig Roberts.

The main objective of this policy is stimulating the investments in order to obtain economic growth, and the main tool is income and wealth tax reduction. Theory specialists suggest that tax reduction should be done after reducing budgetary expenses and monetary supply, which could lead to the liberalization of the supply, to rentabilization of private investments, which would further lead to economic growth. But, in practice, reducing the budgetary expenses proved to be very hard to accomplish, and if this isn’t achieved before tax reduction, the positive expected effects will be cancelled, and in the end it will lead to the increase of the budgetary deficit and interests, and to the decrease of the private investment efficiency.

### 3. The role of the state in crisis management and post-crisis reconstruction

In a competitive economy, the state-market relation may be analyzed from the historic perspective of the two well known political doctrines: liberal and conservative.

Conservatives define market as “the best means to distribute resources and to produce rewards” and gives the state the role of “helping the companies to invest in new companies and machinery, increasing the capital availability.” (Robert Sapiro, *Sinteza Magazine* 98/1994, issued by US Information Agency Washington).

Conservatives give high importance to the following:

- Competition, as market regulator and main factor for welfare growth.
- The size of the capital and the state – private capital ratio in productive investments.
  - Budgetary discipline and constraints, set by the state authorities in order to keep in the budget the consumption level below the investment level
  - A forecast, as accurate as possible, of the inflation growth and its medium and long term impact

In the liberal economic policy, the state involvement is represented by the increase of budgetary expenses in order to increase and consolidate the consumers' purchase capacity.

The defining elements of this type of economic policy are:

- The markets, that need to be balanced and consolidated by public investments in the economic resources of the country, and not by re-distributing them.
  - State intervention, for guaranteeing the framework for those activities that would generate income for satisfying people's needs.
  - Increase of global demand that is the foundation of economic development and growth.

Therefore, regardless the orientation of the doctrines the economic policies are based on, the state has an essential role in stimulating economic growth, in the balanced functioning of the markets, in increasing the purchasing capacity of the population, and also in enforcing budgetary discipline and constraints which would create a balance between investments and consumption.

Under specific economic recession circumstances, the state is the only one that can spend when the banking system is blocked, the companies have debts or are facing bankruptcy and households reduce the consumption to match the decreasing incomes. Therefore, under recession, the state becomes the main player of the economic and financial activity, but, in order to face the high expenses, it is forced to take on loans. But, after recovering to a moderate growth, the state will have to solve the problem of public debt, accumulated during recession.

The size and impact of the current global crisis makes the role of the state an essential one in solving the crisis, and at the same time, requires a medium and long term approach, with two major aspects:

- Crisis management
- Post crisis reconstruction

Crisis management is mainly based on the budgetary recovery measures, whose intervention must be prompt and efficient so that, a given budgetary cost would give an immediate and high result. If the reaction of the above mentioned policies is too lent or if they are started in a wrong manner, then we are faced to the spiral escalating effect of certain factors such as: bankruptcy, unemployment, inflation, etc, which instead of keeping the crisis under control, will deepen it.

Post crisis reconstruction targets structural reforms, mandatory for recovery, which, on the short term, generate budgetary costs but also positive effects, economic growth.

From this point of view, the most significant measures are the ones take by USA and in Europe, by Germany and France.

In USA, state intervention translated in initiating a 2 years programme for supporting the economy (in 2008 and 2009), that meant assigning for this purpose 2.5% of the GDP or 13% of the budget per year.

The parts of the programme are the following:

- In order to stimulate consumption, the population with an income of less than 200000\$/year received a total tax reduction of 500 \$ (1000\$ per family), added to other fiscal reductions, their total value amounting to 275 billion \$

- In order to reduce unemployment by creating 3 million new jobs, the state assigns the following funds: 106 billion \$ for unemployed persons and social security, 90 billion \$ for infrastructure, 54 billion \$ for energy, 16 billion \$ for research and 119 billion \$ for health and administrative expenses.

- Adopting new fiscal measures, which reduce taxes for the employed population, for homeowners and retired people, and increases taxes on income from capital from 15% to 28%.

- Launching conversion programmes for turning variable interest loans into fixed interest loans, for the beneficiaries of high risk loans and setting up a fund for helping people with debt problems to save their mortgaged houses.

We must mention that this support plan comes as an addition to “Paulson Plan” for saving American International Group (AIG).

In Europe, the group of the four highly developed countries (France, United Kingdom, Italy, and Germany) stands out by adopting, at the head of state level, the following common initiatives:

- All the banks will receive support
- The countries may cross European limitations regarding public deficit, and the European Commission will allow direct state intervention in favor of the companies.

• All the actors on the financial markets will be controlled and accounting norms will be revised.

• Restructuring of world finance and organizing a summit with USA, Japan, Russia, China and India, in order to discuss creating a new global financial system.

In France state intervention becomes aggressive even, towards free initiative but also to the other fundamental principles or market economy, because, willing to enforce “the capitalism of the entrepreneurs” instead of “the capitalism of the speculators”, a full state control of finance, stock market etc was introduced. .

In order to increase the number of available jobs, the French government adopted “The Law for economy modernization” and two state agencies were created for financial crisis management:

• “The agency for state participation”, that intervenes for recapitalizing the French banks, by taking loans on financial markets (takes on participations on behalf of the state in the banks that receive support)

• ”The agency for refinancing” (66% bank participation and 34% state participation), that works as a new central bank and has the role of offering short term loans to the banks

Germany initiated an “Obama” inspired programme, for 2 years, which includes the following emergency governmental interventions:

• Increase of the investments in the infrastructure

• Decrease of wage tax from 15% to 14%

• Decrease with 9 billion euro of the contribution to social security fund, amount that would be divided between employer and employee.

For both countries, numerous applications for European funds add to the above mentioned measures.

In Asia, the most representative example is China, who reacted the fastest to the global crisis by initiating a 2-years plan including stimulating the investments in infrastructures, in social housing and health reform. At the same time, VAT and taxes are reduced in order to stimulate private consumption.

As a result of these programmes, which mainly targeted creating new jobs and stimulating demand, Germany and France, from Europe, and China from Asia represent successful examples of being on the track of economic recovery.

As far as Romania is concerned, crisis management had at least two major shortcomings:

• The reaction to the threat of crisis was delayed for too long by putting on a false optimism, in an election year with very high stakes (2009)

• The confusion between the effects of crisis and anti crisis measures, which made most of the adopted programmes be more “crisis” programmes rather than anti crisis ones. For this, we may mention VAT and taxes increase, cuts of budgetary wages and undifferentiated personnel cuts. These state interventions, instead of stimulating the demand, and by this, start the engine of economic growth, generated a severe long term impact on both households and business environment.

The dynamics of goods and services demand on the internal market depends on the level of the prices, on incomes and through this, on the employment rate, on fiscality, but also on the national income and its distribution among the participants.

Analyzing the effects of VAT increase from 19% to 24%, we may notice that this measure determines the economic agents to include the increase of the rate in the expenses of the company, therefore reducing the profit, investments, jobs, and leads to the decrease of budgetary income. Furthermore, by increasing the price of the final product, the rate is transferred to the consumers, which respond by decreasing the demand, triggering the decrease of the supply and the increase of unemployment. Thus, a vicious circle is created, leading to the amplification of the imbalances on the main markets and to changes of the macroeconomic indicators.

The increase of the fiscality reduces the income of the households and has an impact on the investment capacity of the companies. Normally, the increase of the amounts received should have been done by extending the tax base, the number or employed persons and profitable companies, not by increasing the prices, as it is done in the Romanian economy. As a consequence, as the unemployment and the number of bankruptcies rise, the fiscality will be deeper, in order to cover the deficit.

The governmental policy regarding the stimulation of the economic growth must include measures targeted to both suppliers/producers and consumers, this way stimulating the investments and the demand for consumer goods.

The suppliers/producers may be supported by: reducing or eliminating the taxes on reinvested profit, increasing the state orders for infrastructure and public non-productive investments and providing loans for the sector with development potential.

Attracting European funds for Romanian economy represents, together with the above mentioned measures, an additional support through the effect they generate in the economy.

#### **4. Conclusion**

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## ENSURING THE LEGALITY AND PERFORMANCE IN USING PUBLIC FUNDS

Florina-Maria Bobeș\*

### Abstract

*At this stage, when the public entities are promoting the efficiency criterion, any public entity leader is interested to operatively know how the available public funds are being managed so as to achieve maximum results with lowest costs. This knowledge can not be achieved without the contribution of the internal audit, an activity that provides important information regarding the financial management and the heritage state, thereby contributing to achieving the objectives of the institution. The external public audit work done by the Court of Accounts, as the supreme audit institution in our country, is essential for ensuring accountability on the management of public funds. The responsibility for using the public money under legal and performance conditions is, of course, entitled to the officers of public budgets, but the public audit is the one that assesses the financial management of the entities and that issues recommendations that stay behind taking managerial decisions aimed at a better use of the funds.*

**Keywords:** public funds, public audit, performance audit, legality

**JEL Classification:** M42, H0, G30

### 1. Introduction

In a democratic state that respects the fundamental rights of its citizens, they, in their capacity as tax and fees payers are entitled to know from objective, professional and independent sources how the laws, rules and performance criteria are being complied with in terms of the use of funds coming from taxes and contributions.

At the same time, the public funds allocated especially to public entities are not as comfortable to allow spending them without restrictions. This aspect must constitute an urge for prudence and discreetness, for the necessity of sustained efforts to find the most adequate ways for using available resources.

The public audit has an essential contribution for protecting financial resources, promoting the responsibility of public entities involved in using public funds, the order and discipline necessary for administering public money, for consolidating and developing the public and private patrimony of the state.

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## **2. Public audit – a growth instrument of the liability of the entities involved in managing the public funds**

With the development of the universal values, of democracy, freedom and the state of law it emerges a more strongly need to establish and strengthen independent, professional and modern structures; structures that would monitor an important factor of the progress and prosperity, which is the public money.

However, the current global financial and economical crisis requires deep reflections and adequate behavior, now more than ever, at all levels, including regarding the use of public funds.

The establishment and the effective use of public funds represent a prerequisite for the success of the economic and financial reforms in progress, and for the sustainable development of Romania.

An essential contribution in ensuring the legality and performance of the public funds usage lies in the sector of the public audit activity.

Both the internal and external public audit should not be regarded as an end in itself, but as a tool that ensures an efficient use of public funds that optimizes the performance of the public entities activities through its essential contribution in identifying irregularities and financial imbalances. Recommendations offered by the audit can contribute to strengthening the stability of the public entities and to fulfill their objectives in terms of anticipating and properly managing the risks, and efficiently using the available funds under law conditions.

In the same time, through the public audit both prevention and detection actions are being convered and also the tracking actions of public funds that are lost because of negligence, irregularities or fraud. The importance and effectiveness of the public audit are measured by the possible effects that can be generated through the results of the entity, following the application method of the established measures and recommendations. The public audit may be considered useful and effective only if it has the capacity to prevent and/or remove in optimum time the deficiencies and can supply accurate information on the management of public funds.

### **2.1. External public audit**

The external public audit activity contributes to knowing how the financial resources and public materials are managed, how the public money is being spent and also contributes to achieving financial and economic efficiency.

*"The external audit is the audit performed by an entity that is not under the control of the audited entity and that can, basically, not report, in the assessments made, to the objectives of the audited entity. The external audit is exercised outside the audited entity. The external audit examines whether the revenues were received, expenditures were made legal and regular and whether the financial management was adequate. It also reports any irregularities found."* [Dinga, E., Pop, N., Dimitriu, M. (2006)].

Mainly, the public external audit is performed by specialized state bodies empowered by law to exercise their attributes over the formation and use of public funds.

The external audit of the public sector has the important function to provide, to those decision makers at the highest level (the Parliament, the Government) and to citizens, assurance regarding the quality of the financial statements on how the money coming from taxes was spent.

The external public audit performed by the Court of Accounts represents:

- for the Parliament - a guarantee that the laws adopted in the public finances domain are in place and that the public money are being effectively managed;
- for the Government - a lever for correcting financial and fiscal policies adopted and for guiding resources towards efficient programs;
- for public entities - a tool to prevent shortcomings in the financial, analysis and assessment domain of the training method and the use of the available resources;
- for taxpayers - a guarantee on the proper use of the nation's funds.

From the content above, results that the public external audit is an independent activity, carried out by specialized bodies outside the audited entity, aimed at analyzing and evaluating the way the objectives of the entity's activity are being fulfilled, verifying the legality and regularity of setting up and using the public financial resources, of their economical, efficient and effective use, of organizing and operating the control systems and also the effectiveness of the internal audit.

According to Law no. 94/1992 regarding the organization and functioning of the Court of Accounts as amended by Law no. 217/2008, the external public audit is "the audit work undertaken by the Court of Auditors, which comprises mainly the financial audit and the performance audit." The two forms of external public audit are exercised under the Regulation regarding the organization and the development of specific activities of the Court of Auditors as to seize documents from these activities, adopted on the basis of the generally accepted international auditing standards.

### **The Financial Audit – an attestation activity for the financial responsibilities of public entities**

The financial audit is the activity that seeks if the financial situations of the public entities checked are complete, true and consistent with the laws and regulations enforced, in this sense it was issued an opinion.

The financial Audit of the Accounts Court is made over the execution accounts for periods of administration concluded and seeks mainly:

- data accuracy and reality in the financial statements;
- determining the legality and the public revenue collection;
- the employment, clearance, ordinance, payment and the registration of costs according to law and to the legal regulations budget;
- the approval and the amendments brought to the original provisions of the public budgets;

- granting from the budget subsidies and of allocations for making investments and for the legal use of them;
- contracting loans, the repayment and payment of interest on outstanding rates;
- the concession and lease of publicly owned property, including leasing of public services;
- ensuring the integrity of the heritage.

The Accounts Court certifies the accuracy and reliability of the data from the audited accounts, being the only authority that can adjudicate on such data.

If by the end of 2008, the Accounts Court exercised the financial control over the closed execution accounts of the public institutions and granted an agreement discharge to officers whose accounts were accurate and real, starting with the year 2009, the Accounts Court exerts financial audit over the closed accounts, issuing a certificate of compliance for the accounts that meet the statutory requirements.

In the attempt to modernize and align to the good European practices, the Court of Accounts made a great qualitative step forward through legislating and realizing the financial audit, but the valuation of the findings resulted from the audit mission has not been finished. My affirmation is based on a real fact, according to which the concept of management discharge which the Court of Accounts had been operating is not any more between its attributions, but neither between those of other public authorities.

My proposal is that the concept of management discharge be legally reintroduced, because this is a concrete instrument to reinforce public responsibilities in the financial field but this competency must be granted to authorities that entrusted credit ordinarators with the management of public funds, respectively to the parliament for ordinarators subordinated to the government and to the local councils for ordinarators of local budgets.

The management discharge must be granted only to main credit ordinarators, who should be responsible also with the accuracy of the accounts elaborated by secondary or third credit ordinarators subordinated to them.

In order to adequately valorize the findings resulted from audit missions, I express my opinion that in case of finding some financial/accountancy deviations or losses, the measures and recommendations issued after financial audit missions have to be transmitted to a specialized commission of the Parliament (for example a Commission for Public Funds) or to the local councils, depending on the case, analyzed and transmitted by these to the main credit ordinarators for implementation.

This way the sanctions for the inadequate management of public money can take different forms, including the withdrawal of the public support or the diminution of some funds, this way insuring an increase of the financial discipline.

### **The performance audit – a modern form of external public audit in the activity of the Accounts Court**

Performance is the unique chance that Romania has for reducing the differences which separate it from the developed countries, it is the only way to valorize

resources regardless their nature. In the future the performance audit will play an important role.

Introducing the performance audit between the main powers of the Court of Accounts of Romania is relatively recent. The regulatory framework is represented by Article 26 of Law 217/2008 recently amending and supplementing the Law on Organization and Functioning of the Court of Accounts, which states: "The Accounts Court shall carry out the performance audits of using the financial resources of the state and of the public sector. The Court makes an independent assessment on the economicity, efficiency and effectiveness with which a public entity, a program, a project, a process or an activity uses the public resources allocated to achieving the established objectives. "

These three components of the performance audit are characterized through a number of features, which are presented in the following paragraphs.

The economicity is defined as being the minimization of the cost of the resources used for an activity, subjected to quality conditions as scheduled. This requires the evaluation of a good management of the resources on the basis of some accepted and enacted criteria.

Efficiency is understood as being a relationship between results, in the form of goods and services, and resources used to produce them. Efficiency can be expressed as a ratio between the results obtained (the outputs) and the effort made in the form of the consumed resources (the inputs).

The efficiency is closely linked to the concepts of profitability and productivity. The efficacy is the extent to which the objectives have been met and the relationship between the desired and the actual impact of an activity. The efficacy can be expressed as the ratio between the achieved and the planned results.

It is necessary to consider also other criteria which can define the performance of the usage of funds allocated to public entities. So, apart of the control of the "3E" (economy, efficiency, effectiveness) the performance audit should consider another "2E", respectively the efficiency of using environment resources and the ethics of public money usage.

The performance audit, the most modern and efficient form of audit orientated towards results must occupy a grater quantum in the external audit activity, because it insures a superior valorization of financial resources made available for public entities. The number of performance audit actions in the current stage is reduced, and the effects of the mission don't have the desired impact, we observe some reserves of the audit towards criticism and eventual identified failures. The new regulation of the activity of the Court of Accounts regulates the performance audit, introducing at the same time a new element. If the performance audit was being exerted only ex-post until now, the new normative act gives the possibility to perform audit actions during the deployment of programs, projects, activities?

This is an important competency which should be exploited by the Court of Accounts, but my convincement is that the legal regulation could be improved in the sense of introducing also the performance audit type ex-ante. In the case of

performance audit, following its preventive side can prevent the dissipation of public money, negligence, eventual losses or deficiencies through making public entities and their leaders more responsible in engaging and making public money expenses.

An aspect which has to be always considered must follow one of the serious phenomena in Romania in the actual stage, respectively corruption. Corruption has unpleasant consequences for the public entities, but also for honest citizens. Identifying concrete forms where corruption happens, evaluating its dimensions and keeping the phenomena under control implies the external public audit which must undertake actions for protecting the public financial resources.

Adapting the audit methodologies to the degree of the delinquents' professionalism, extending the transnational collaboration, aligning the external audit to the international standards and good practices in the field must become absolute priorities.

For a better measurement of the performance it is necessary to elaborate budgets on programs, these helping auditors to concentrate on concrete objectives, established by the public entity. This way the accent on how public money is spend will be moved on obtaining results and reaching the set goals.

In order to completely evaluate the audited activity or program, both from the legislative point of view as from that of performance, there is necessary a new vision over the concept and operating external public audit, which means combining the two forms of audit (financial and performance audit ) under the same mission.

The goals projected by the state, desired in a more performant economy cannot be achieved without an efficient and effective integrated audit, capable to identify deviations form the set performances and to issue recommendations to adjust these.

## **2.2. Internal public audit**

Thanks to the contribution of the internal public audit to the effort of streamlining the activity of the governmental entities, contribution made through assurance and counseling missions provided to the leadership people for a better management of the revenue and of the public funds, through a continuous evaluation and improvement of the internal control and through the analysis and management of the risks, I believe that this type of audit is the main form of the public audit's activity performed by the public entities. The internal audit activity represents therefore the key element in supporting the management of the entities, as it provides important sources of information necessary to conduct the activities.

Through the process of observing the reality, through early capturing and correcting the financial errors and irregularities, through identifying and establishing measures and recommendations for an efficient use of the budgetary appropriations, the internal audit helps solving the financial imbalances that may arise in the public institution.

The internal public audit is exercised over the activities developed inside a public institution, including over the subordinate activities, concerning:

- the raising and usage of the public funds;

- the administration of the public property, in accordance with the law, in terms of economy, efficiency, effectiveness, opportunity and regularity.

According to the legal frame (Law no. 672/2002 regarding the internal public audit), the internal public audit includes: regularity audit, performance audit and system audit. By using one of these types of internal public audit, the auditor brings its contribution to improving the management of public funds for an economical use, efficient and effective in terms of legality, as follows:

- the regularity audit – examines the legality and the regularity of the patrimonial transactions;

- the system audit – represents a deeper evaluation of the leadership and control systems;

- the performance audit – evaluates the inexpensiveness, the efficiency and the efficacy of the audited activities.

In practice, in most public entities are being carried out mainly internal audit actions at a regular time, which are routine and inconclusive actions for the best management of public funds and assets, the system and the performance audit are generally neglected, although they can play a decisive role in ensuring the effective functioning of the audited activities.

Sustained efforts are required to pass from the audit focused on verifying the compliance with the regularity of transactions, the compliance of the activities with the law, on protecting the assets, and in the system and performance audit's case, through adding relevant analyses regarding the achievement of the objectives in terms of economy, efficiency and effectiveness.

In my opinion, in auditing the management systems of the internal audit we will not focus on issuing views concerning the strategic objectives of the institution's leading, but on assessing the suitability of the decisions made by the officer with the purpose of realizing the entity's objectives. Perhaps, this new dimension of the internal audit will represent the final stage in the development of this activity. Of course, such an audit in the present stage in which the auditor is directly subordinated to the head of the public institution is hardly doable, but nominating an auditor from the upper structures that could achieve this mission would produce effects qualitatively.

The definition of the internal public audit (Law no. 672/2002 regarding the internal public audit) as "*the activity...that provides assurance and consulting to the management on the good administration of public revenues and public expenses*", allows us to state that, in essence, the internal public audit's contribution to optimizing the entity's activity is realized through the assurance and consulting activity given to the management.

The assurance activity represents an objective examination of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the organization. [Glossary of terms - Professional standards of the internal auditing, Ministry of Finance and Institute of Internal Audit and Control (IFAC), (2002)].

The aim of any internal audit mission is to provide assurance that the audited financial statements are complete, accurate and prepared in compliance with the legal and internal regulations in force. Assurance given as a result of the objective examination of the audit's evidence is relative, because auditors can not examine all of the entity's operations and programs on the one hand, and on the other hand the internal audit has a periodical character.

Assurance is usually presented in the form of a firm statement about the state of the audited domain, thus emphasizing the responsibility of the internal auditors.

Regarding counseling, this is the activity developed by the internal auditors, designed to bring value and improve the management of the public entity, to manage risk and internal control, without the internal auditor having to assume managerial responsibilities.

Internal auditors often give advice at the public entity's management request, embodied particularly in developing some analyses and formulating points of view over issues of interest for the leadership - especially in the financial accounting domain with the role to increase the added value brought by the internal audit to the counseled activities.

I believe that counseling work can act like a natural extension of the assurance activity and that the two activities are not mutually exclusive, but can interact or be complementary.

### **3. Conclusion**

The public audit is a process of monitorization and verification of public money, with which you can enter in the essence of the phenomenon, you can optimize the economic and financial activities for the rapid and efficient development of the public entities.

The core subject of the public audit is represented by the formation and use of public funds. The certain fact according to which the public financial resources materialize much of the gross domestic product, is a strong argument, which advocates for exerting the public audit activity over the public financial resources, for preserving the integrity and for a proper management of public goods.

Providing an improved reliability and creating a state of transparency of information contained in the financial statements requires the existence, in addition to its own audit of entities, of a public external audit exercised by bodies that are independent, outside the organizational structures of the entities managing public funds.

The contribution of the internal public audit to the effort of streamlining the activity of the governmental entities is made through assurance and counseling missions provided to the leadership people for a better management of the revenue and of the public expenditure, through a continuous evaluation and improvement of the internal control and through the analysis and management of the risks.

At the level of the public entities there are still some confusions among the budget officers and even among the ones with attributions in the internal audit

domain. This is because the internal audit is considered to be a verifying operation, although in the current context, in which all the entities, including the public ones, are interested in performance, this activity is a good tool for streamlining the work of the public entities. Through the assurance and counseling missions regarding the administration of public funds, by assessing the risk's management processes and the internal control, the internal audit activity contributes to empowering the public entities in terms of managing the public money and, finally, increasing the financial administration's performance of the public entities.

From the references studied I found that the public external audit monitors the formation and the usage under legal and performance conditions of the public funds, ensures transparency by providing credible information over the financial statements of public entities to third parties.

In all democratic countries of the European Union, the external audit of the funds used by the public entities is performed by state bodies, known under the generic name of Supreme Audit Institutions (SAI), which are established under the Constitution and under organizational and operational laws that guarantees their independence.

Only through a performant, flexible, dynamic and pragmatic external audit over the formation and use of the public entities funds shall be ensured the proper practice of the laws adopted in this area and the financial resources can be oriented towards efficient programs.

Combining the two forms of audit, namely financial and performance audit in the same mission in order to enable the total evaluation of the activity or of the audited program, both in terms of legality and performance use of public funds must become a priority of the Court of Accounts, which is currently carrying out either only financial audit missions or performance audit missions.

The symbiosis between the two basic types of audit should become a matter of professional judgment and opportunity.

A new vision over the conception and operation of the public external audit is needed. Targets designed by the state and by public entities can not be achieved without an effective and efficient integrated audit, that is able to identify deviations from the established performances and to make recommendations for their adjustment.

Appropriate and effective use of public funds, ensuring a healthy economic and financial management, carrying out the financial-economical operations and activities in a legal and efficient way, ensuring transparency and providing reliable information to third parties regarding the financial situation, which is performed with the help of the public audit activity, these are necessary tools for a positive development of the society as a whole.

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## IN SEARCH OF EMPIRICAL CONTENT – THE AUSTRIAN WAY TO GO BEYOND PURE THEORY

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### Abstract

*The Austrian School has always represented a leading approach in social sciences emphasizing the power of logical deduction and key importance of pure theory. The lack of empirical content, however, often prevented the acknowledgement of correct theoretical and policy conclusions by fellow economists. This paper introduces the concept of analytical narrative and argues that this approach developed by Peter Boettke and his followers from the Virginia branch of the Austrian School can enrich the pure theory by empirical content without compromising the power of the Austrian explanation.*

**Keywords:** empirical research, economic method, analytic narrative, Austrian School

**JEL Classification:** A11, A13, B41, B53

### 1. Introduction

The methodology in the social sciences undertook a dramatic change in the 20th century. Too often social scientists attempted to uncritically apply the “habbits of thought to fields different from those in which they have been formed“. F. A. Hayek labeled this approach scientism, and he himself belonged to a school of thought that dissented from the economic mainstream. The Austrian School has always represented a leading approach in the social sciences emphasizing the power of logical deduction and key importance of pure theory. However, pure theory was not able to reach the rest of the profession, and the lack of empirical content often prevented the acknowledgement of correct theoretical and policy conclusions by fellow economists. This paper introduces the concept of analytical narrative and argues that this approach developed by Peter Boettke and his followers from the Virginia branch of the Austrian School can supply the pure theory with empirical content without compromising the power of the Austrian explanation. Chapter 1 elaborates on the reductionism of the popular economic method; chapter 2 introduces the essential features of analytical narrative in its original expositon; chapter 3 highlights the innovation added by GMU professor Peter Boettke and

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analyses whether this approach is suitable for the Austrian scholars; chapter 4 surveys some of the modern research using the narrative approach. The last chapter concludes.

## 2. Reductionism of the popular economic method

Economics, as a science of human action in the world of omnipresent scarcity, differs obviously in its method from sciences studying natural phenomena. An acting man exercising his free will is a radically different object of study as compared to stones, atoms, flowers or animals whose existence is not shaped by their own purposeful choices. This natural distinction, however, evaporated from the economic mainstream around the middle of the 20th century as the prevailing way of doing economics (mainstream) diverged from a traditional economic approach of understanding society and addressing social and economic problems as characterized by the founder of the discipline, Adam Smith, onwards (mainline).<sup>1</sup>

One of the reasons why mainstream economists so eagerly wanted to blur the distinction between social and natural sciences was their attempt to achieve in economics precision and sophistication that they admired so much in natural sciences. A progression from a qualitative to quantitative approach epitomized the key recipe for this transformation. They were unhappy about the predictive power and accuracy of traditional economic explanations and longed for a change of what economics is. They wanted to emulate the success of natural sciences. As F. A. Hayek stated in *The Counter-Revolution of Science*:

[Social sciences] became increasingly concerned to vindicate their equal status by showing that their methods were the same as those of their brilliantly successful sisters rather than by adapting their methods more and more to their own particular problems. And, although in the hundred and twenty years or so, during which this ambition to imitate Science in its methods rather than its spirit has now dominated social studies, it has contributed scarcely anything to our understanding of social phenomena, not only does it continue to confuse and discredit the work of the social disciplines, but demands for further attempts in this direction are still presented to us as the latest revolutionary innovations which, if adopted, will secure rapid undreamed of progress.<sup>2</sup>

The days of “classical economic” theorizing were numbered. Only what gets measured can be scientific – as a slogan of the Econometric Society sums up bluntly “Science is measurement”. The “new science” of economics evolved and “new” economists deliberately cut off all links to institutional content of their disciplines, which purged from economics all debates about the underlying property structure – the core of Smithian analysis. A new generation of economists had gained prominent positions and the overwhelming majority of them were ready to make progress in the

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<sup>1</sup> For more on this distinction and implications see Boettke, P.: “Liberty vs. Power in Economic Policy in the 20th and 21st Centuries”. *The Journal of Private Enterprise*, Vol. 22, No. 2, pp. 7-36, Spring 2007.

<sup>2</sup> Hayek, Friedrich, 1980: *The Counter-Revolution of Science*. Liberty Fund Inc, p. 21

“new” science – propertyless economics – that does not study real people in the real world. Joan Robinson of Cambridge declares for example that “now private property becomes otiose”<sup>3</sup> and another future Nobel Prize laureate, Robert Solow, infamously asserted that “the institution of private property has to keep proving itself”.<sup>4</sup> Professor Solow may hence be the anonymous leading economist (and Nobel Prize laureate) who pointed out in the 1960s that property has no effect on people’s behavior and doesn’t matter in economics.<sup>5</sup> Economic mainstream and mainline diverged.

Though “[e]conomics has become a mathematical fantasia where the honors go to those versed in calculus, topology, set theory, linear algebra and the like”<sup>6</sup> there were still islands of prominent economists who dissented, claiming that that mathematical models as such do *not* provide us with relevant economic understanding. The Nobel Prize laureate Ronald Coase put it bluntly:

In my youth it was said that what was too silly to be said may be sung. In modern economics it may be put into mathematics.<sup>7</sup>

Though the view that the mainstream explanation of real-life phenomena such as the wealth and poverty of nations is seriously misguided was supported over time by both theoretical and empirical work,<sup>8</sup> the most systematic alternative paradigm was developed by the followers of Carl Menger, Ludwig von Mises, F.A. Hayek, i.e. by the Austrian School of Economics (once again, increasingly popular today when we are living through the aftermath of yet another era of the “new economics”). Austrians take special care to distinguish abstract (qualitative) theory and empirical historical experience.

As Ludwig von Mises stated long ago:

Laymen often insist that one can prove anything with statistics. Actually, statistical experience in the field of human action can prove nothing in the sense in which the natural sciences colloquially speak of proof. Historical experience, which is always the experience of complex phenomena, cannot lead to a knowledge of

<sup>3</sup> Robinson, 1967, p. 176 cited in Bethell, Tom. 1998. *The Noblest Triumph, Property and Prosperity through the Ages*. New York: St. Martin’ Press, *op. cit.*, p. 193.

<sup>4</sup> According to Bethell, Tom. 1998. *The Noblest Triumph, Property and Prosperity through the Ages*. New York: St. Martin’ Press, p. 8.

<sup>5</sup> As reported by others in Kitch, Edmund W. 1983: “The Fire of Truth: A Remembrance of Law and Economics in Chicago”. *Journal of Law and Economics*, 1932–1970, 26(1), p. 229.

<sup>6</sup> Veljanovski, Cento. 1990. *The Economics of Law: An Introductory Text*. London: The Institute of Economic Affairs, p. 18.

<sup>7</sup> Coase, Ronald. 1990. *The Firm, the Market and the Law*, Chicago: University of Chicago Press, p. 185.

<sup>8</sup> For example, see Barro, Robert Jr. 1991. “Economic Growth in a Cross Section of Countries”. *Quarterly Journal of Economics*, 106(2), pp. 407-443; or Olson, Mancur. 1996. “Big Bills Left on the Sidewalk: Why Some Nations are Rich, and Others Poor”. *Journal of Economic Perspectives*, 10(2), pp. 3-24; or Furubotn, Eirik and Richter, Rudolf. 2005. *Institutions and Economic Theory*. Michigan: University of Michigan Press.

theoretical laws. Historical experience must be interpreted and explained by the help of general laws gained independently of historical experience.<sup>9</sup>

Whereas this approach remains the key feature of the Austrian approach, as time passed, some scholars from the Austrian camp added a new dimension to their research agenda in an attempt to break the narrow limits of pure theorizing.

## 2. Analytical Narrative Manifesto

Pure theory elaborated by the Austrians was able to provide understanding of the operation of the economy and show the consequences of economic policies; however, it often fell short of communicating the message or starting a debate with empirically focused scholars outside the Austrian School or outside economics. Hence the idea emerged to supplement the pure theory argument with the flesh and blood of the “real world”, enriching the analysis by the empirical content through analytical narrative, a method used routinely outside economics.

Analytical narratives offer a method for moving from the context-rich world of events and cases to explanations that are logically rigorous, illuminating and insightful...<sup>10</sup>

The modern history of narrative studies dates back to 1998 when Princeton University Press published a methodological manifesto of a new approach - a book called *Analytic Narratives*. The team of authors included Robert H. Bates, professor of political science at Harvard University, Avner Greiff, professor of economics at Stanford University, Margaret Levi, professor of political science at University of Washington in Seattle, Jean-Laurent Rosenthal, professor of economics at University of California in Los Angeles and Barry R. Weingast, Hoover Institution fellow and professor of political science at Stanford University. Coming from different backgrounds, their shared effort was to develop understanding of historical development, political systems and institutional changes in society. The book – dedicated to Nobel Prize winning economic historian Douglass North – presents a series of case studies in which analytical narrative serves as unifying analytical tool. “The phrase *analytic narrative* captures our conviction that theory linked to data is more powerful than either data or theory alone.”<sup>11</sup> Through this method of qualitative research rooted in case studies, it is possible to get the “data” or “empirical content” depicting human interactions into an analysis without a need to dehumanize the actors and lose the beauty of natural language. The analysis can hence keep rational choice characteristics and remain empirically and institutionally rich. The book

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<sup>9</sup> Mises, Ludwig, 1953. “Comments About the Mathematical Treatment of Economic Problems” [“Bemerkungen über die mathematische Behandlung nationalökonomischer Probleme”]. *Studium Generale*, 6(2), translated and republished by Helena Ratzka as “Comment about the Mathematical Treatment of Economic Problems”. *Journal of Libertarian Studies*. 1977, 1(2), p. 97.

<sup>10</sup> Bates, Robert and Greif, Avner and Levi, Margaret and Rosenthal, Jean-Laurent and Weingast, Barry. 1998. *Analytic Narratives*. Princeton: Princeton University Press, p. 236

<sup>11</sup> Bates, Robert and Greif, Avner and Levi, Margaret and Rosenthal, Jean-Laurent and Weingast, Barry. 1998. *Analytic Narratives*. Princeton: Princeton University Press, p. 3

presents five case studies covering topics such as trade development in Genoa in 12th century, the impact of fiscal policies on absolutist European governments; conscription in France, US and Prussia in the 19th century, or emergence, development and decline of the *International Coffee Organisation* in which the steps of the narrative method are used – detailed grasping the situation, understanding the institutions, relations, specifics, preferences of actors etc. followed by analysis which rationalizes and logically explains the narrative.

The analysis offers an explanation referring to an existing – i.e. real – situation not an abstract – i.e. model – situation.

### **3. Boettke's attempt to contextualize Austrian Economics**

Whereas the Bates's book in its introductory methodological chapter suggests the "pluralistic" approach arguing that the researcher needs to be open to "be surprised" by the narrative and let the narrative penetrate his seemingly consistent explanations, it does not follow necessarily that "anything goes". When the analytical tool is – as it typically is the case in Bates's book – game theory, the explanation problem is just a sequence of isolated "puzzles". There is another possibility, though. And this is an innovation by Professor Peter Boettke of George Mason University. He placed Austrian praxeology to the center of his narrative research project.

The beauty of analytical narrative for Austrian scholars lies exactly in the fact, that, in the eyes of the mainstream economists, is their weakness. Austrians have argued for more than a century that economics is a science supplying us with timeless, universally true laws. This position exemplified the opposition to the ideal of contingency of economic understanding defended by the German Historical School. Carl Menger won this famous battle over economic method, and the Austrians still today proudly adhere to this position. As Austrians do believe in the power of logical deduction and the universality of implications of human action, their method gives them very powerful analytical glasses. Analytical narrative of their variety can hence be built on a very firm foundation – underlying structure of understanding – which then gives us a key to see through a complicated social reality and sort it out in a meaningful way. The theory is instrumental in looking for a narrative; it helps to identify key actors whose activities shape the narrative, discover appropriate questions for interview, etc.

Narratives are used to contextualize the price theory – to explore and explain the relevant institutional and historical detail. The narrative style is important not only because it permits the political economist to access the "messy" particulars of specific historical and institutional contexts but also because the "fully human" agent who is the central actor in Boettke's political-economic approach is a complex, often contradictory, and formally intractable character.<sup>12</sup>

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<sup>12</sup> Leeson, Peter. 2010: "The Political Economy of Peter Boettke". *The Journal of Private Enterprise*, 26(1), p. 50.

As a consequence, the analysis is both abstract and empirical. It keeps its status of a universally true theory which is – now – supplemented with real-life empirical context.

In Boettke's setting, analytical narrative represents the missing quadrant in the matrix of empirical research which depicts currently used empirical methods and the status of conclusions reached. We can divide the methods into "clean", i.e. statistical–regression analyses, and "dirty", i.e. interviews, historical documents or ethnography. The conclusions are either universally true (thin) or time- and space-specific (thick).

*Classification of methods of empirical research*

	<b>"Dirty" empirical work</b>	<b>"Clean" empirical research</b>
<b>THIN description</b>	Analytic narrative	Standard economic analysis (constrained optimization, statistical significance)
<b>THICK description</b>	Traditional anthropological, sociological, area studies, political science work (social forces and cultural analysis, case study and ethnography)	Statistical sociology and political science ( "Kitchen sink" statistical analysis which throws everything in the right side of the equation in search of explaining the left side)

Source: Boettke, 2000

#### 4. Current narrative research

Critical discussion about the suitability of the method is still going on (see e.g. J. Elster, 2000 or A. Alexandrova, 2009 arguing against, and Boettke, 1998, M. Levi, 2004, in favor of it). A core of the criticism is the belief that analytical narrative overemphasizes the rationality of action, ignoring the irrational and emotional part of human decisions, against which the defenders argue that the intimate insights into the problems can incorporate into the model all relevant views and irrational behavior. This debate is, however, only mirroring the debate about the use of formal models and formal techniques in the economic mainstream generally. For analytical narrative of Boettke's provenience that builds on Misesian praxeology, the accusation of too much rationality does not hold. Praxeology is indeed a rational choice theory; however, it does not assume omniscience and non-existence of errors.

There is a growing list of papers combining the Austrian method and analytical narrative covering a wide range of topics from de-socialization to US foreign policy.<sup>13</sup>

<sup>13</sup> See e.g. Stringham, Edward and Boettke, Peter and Clark, Jeff. 2008. "Are regulations the answer for emerging stock markets? Evidence from the Czech Republic and Poland". *The Quarterly Review of Economics and Finance*, 48(3), pp. 541–566; Leeson, Peter. 2007. "Trading with Bandits". *Journal of Law*

In all cases, the authors build on advantages of analytical narratives, i.e. base their analyses on understanding rooted in praxeological analysis, rather than measurement, which in many instances does not give us enough data for doing the standard empirical analysis anyway.

[G]iven the complexity of human predicament, natural language is far better suited than formalism to conveying these truths. Although the particular ends sought and means employed vary among people, places, and time, purposeful behavior in the most general sense is itself an omnipresent feature of the world. Thus, although the applicability of particular laws of economics derived from starting point of human action will vary from place to place, their truth value is universal. The universality of purposeful human behavior begets the universality of the economic truths that explain this behavior. Economics can explain tendencies and direction of change, even if it cannot explicitly model or measure statistical significance of change.<sup>14</sup>

It seems to be clear that narrative alone cannot give us better theoretical understanding of the world. Analytical narrative rooted in praxeology, however, is enriching the analysis and to the qualitative aspects of praxeology adds an empirical dimension. Equipped with this “dirty” empiricism, Austrian economists can take part in debates with fellow economists, lawyers, sociologists or historians, demonstrate the power of their explanations and, thereby, introduce to them core Austrian insights which – left in the pure praxeological exposition – were not accessible or attractive to them. Whereas historians and sociologists have always been open to this kind of empirical work, economists resisted. Things may be, however, on the move even within the economic profession, and the window of opportunity is wide open for expanding the spectrum of traditionally accepted methods of inquiry. The Nobel Prize awarded to Elinor Ostrom for her institutional analysis is not only appreciation of the Bloomington program but good news for scholars using analytical narrative as well.<sup>15</sup>

## Conclusion

The method of analytical narrative represents a return to the roots of economic science and belief that we cannot understand market mechanism without understanding a man as an acting human being realising his dreams in the real world. Analytic narrative rooted in the deductive method of the Austrian School gives

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*and Economics*, 50(2), pp. 303-321; Coyne, Christopher. 2007. *After War: The Political Economy of Postwar Reconstruction*. Stanford: Stanford University Press; Beaulier, Scott and Subrick, Robert J. 2007. “Limited Government and Economic Growth in Botswana“. *The Journal of Private Enterprise*, 23(1), pp. 51–64.

<sup>14</sup> Boettke, Peter J. and Coyne, Christopher and Leeson, Peter. 2003. “Man as Machine: The Plight of 20th Century Economics“. *Annals of the Society of Economic Thought*. 43(1), p. 4

<sup>15</sup> On the essence of Ostrom’s research agenda and links to Austrian research program see Aligica, Paul Dragos and Boettke, Peter J. 2009. *Challenging Institutional Analysis and Development: The Bloomington School*. New York: Routledge.

scholars a powerful tool to talk in a new way about the world. Economic logic can, hence, co-exist with “dirty” empirical data resulting in flesh and blood explanation of historical events or policy steps. In addition, it gives Austrian economists – whose natural language explanation and broad humanistic approach has been always appreciated by non-economists<sup>16</sup> – an additional tool helping to increase understanding to get their powerful message about the functioning of society across to students of all social sciences.

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<sup>16</sup> See e.g. Crespi, Gregory Scott, 1998: “Exploring the Complicationist Gambit: An Austrian Approach to the Economic Analysis of Law”. *Notre Dame Law Review*, 73(2), pp. 320–321 and Novak, Michael. 2001. “Economics as Humanism”. In Younkins, E. ed. *Three in One*. Lanham, Md.: Rowman & Littlefield, pp. 202-06.

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## EVOLUTION AND TRENDS OF FLEXICURITY IN THE CURRENT CONTEXT OF ECONOMIC AND SOCIAL DEVELOPMENT

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### Abstract

*The level of uncertainty and risk that economic actors are currently confronted with, be they individuals, companies or other categories of organizations, is high, the more so since the whole process of economic decision-making is regarded with extreme circumspection. The heightened dynamics of contemporary economy and the difficulty of predicting its evolution have brought about the need for every measure targeting the labour sector to have a wide range of interventions in order to make a contribution to balancing the demands of real economy with the ability of the labour supply of adapting itself to the fast changes in the economic environment. Given this overall context, flexicurity policies play a central part in all development strategies yet there isn't always an institutional and administrative capacity of implementing in a correct, coherent and prompt manner all the measures called for to reach the targets set in terms of employment, sustainable economic and social development, strengthening the knowledge-based economy, etc. The present paper sets out to outline some clarifications pertaining to the conceptual and methodological framework of flexicurity. Moreover, we will attempt to outline some of the main lines of flexicurity policies in EU countries, given the significant existing lags between developed countries and those recently joining the EU27.*

**Keywords:** labour market, employment, economic neoliberalism, flexibility of the labour market, labour security, flexicurity

**JEL Classification:** E24, B25, J21, J88

### 1. Introduction

The first consistent indications regarding the accelerated diversification of the issues the labour market is confronted with began to take shape in the early 1980, following the strengthening of the position of the neoliberal doctrine and the increased consistence of neoliberal policies, applied at an increasingly larger scale in the economy. The response of decision-makers on the labour market to this amalgamation of influences, some of which particularly strong, started to take shape a decade later, respectively during the last decade of the 20th century, through the gradual reconstruction of old structures and institutions and through designing an institutional framework that was better grounded in economic reality and able to comply with the demands of all factors involved (Munteanu, 2011). In this overall structure, flexicurity policies play an extremely important part when it comes to harmonizing the demand for skills and competences with the ability of the labour

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market to respond to these requests, in a safe and inclusive labour market. The paper is structured so as to contribute to the clarification of notions related to the concept of flexicurity, the models and methodology of flexicurity, at the same time revealing the main trends in this field at European level.

## 2. What is flexicurity?

The concept of flexicurity isn't new in the theory and practice of economics. The origins of the concept date back to the early 1990, when a process of combining notions of flexibility and security on the labour market began at European level, in an attempt to reconcile employers' needs with workers' interests, in the new economic and social context. As it is well-known, the labour market, as a derived market, is confronted with an extremely varied range of perturbing factors, which affect its functionality, its structure and, not in the least, its balance.

To summarize the evolutions with a profound impact on the institutional framework of the economic environment, we'd like to highlight the crumbling position of unions; the increased power of management and employers' associations; the rapid development of new technologies and their equally speedy introduction on the market; the sustained support for entrepreneurship, etc.

The above-mentioned issues have made a decisive contribution to the "downgrading" of the labour market from its previously central position in the 1980s to make room for the financial market, which has only served to add to the exposure of labour to the perturbing factors originating from processes and phenomena typical for the various sectors of global economy, with a strong influence on employment.

Various approaches to flexicurity can be found in specialized economic literature, and not only, taking into account the fact that the concept needed to cover several stages before imposing itself. We will start by underlining the fact that flexicurity, with its twin components: the flexibility of the labour market and the security of employment has been an intensely debated subject during discussions around social policies and employment in the European Union for more than two decades, starting in the early 1990s.

The first ideas taking into account the combination of flexibility and security in the labour market were introduced in 1993 by the Delors Commission in the White Paper on *Growth, Competitiveness and Employment*". As a term, flexicurity appeared in 1996, with its introduction in the Green paper of the Commission of the European Union on *Partnership for a New Organization of Work*".

Several of the key moments in the consolidation and development of flexicurity are outlined in a document of the Association of Romanian Entrepreneurs (2009), respectively:

- 22 November 2006, the Green Paper of the European Commission on *Modernizing Labour Law to Meet the Challenges of 21st century*;
- 22 November 2006 – 31 March 2007, initiating and holding an open (on-line) debate on *Adapting labour law to ensure flexibility and security for all*,

- 8-9 March 2007, the first debate on the definition of flexicurity, its conclusions referring to the need to prepare *a range of flexicurity pathways to find the right mix of policies tailored to labour market needs, including increased labour-market participation* (Presidency Conclusions - Brussels European Council, p. 7)

- 27 June 2007, the European Commission publishes the first document solely dedicated to flexicurity, respectively *"Towards Common Principles of Flexicurity: More and better jobs through flexibility and security"*;

- On 29 November 2007, the European Parliament published the resolution on the *Common Principles of Flexicurity*, following which the European Council adopted the *"8 common principles of flexicurity"* on 5 December 2008;

- In December 2008, the Council of the European Union published the report on the *"Implementation of the common principles of flexicurity within the framework of the 2008-2010 round of the Lisbon Strategy*, following the launching of an action plan called *"Mission for Flexicurity"* on 1 February 2008 (Ciucă, Son, Paşnicu, 2009) etc.

Starting with 2007 and 2008, flexicurity policies are considered efficient tools, techniques and methods of fighting the negative effects of the economic crisis on the labour market (EMCO Reports, 2009, p. 2).

A revision of the four components of flexicurity follows below.

**Table no. 1 Components of flexicurity (C1, C2, C3, and C4)**

<b>Crt. nr.</b>	<b>Name</b>	<b>Content</b>	<b>Meaning</b>
1.	<b>C1</b> Contractual arrangements/ clauses, from the point of view of both employer and worker	More flexible and secure labour contracts.	These entail modern labour laws, collective agreements and effective work organisation.
2.	<b>C2</b> Comprehensive lifelong learning (LLL)	Clear and well-defined strategies for a large scale implementation of the concept.	They ensure the continual adaptability and employability of workers (their chances of finding and keeping employment), particularly for the most vulnerable segments of the population.
3.	<b>C3</b> Active labour market policies (ALMP)	Various effective policies implemented on the labour market.	They can help people cope with rapid change, reduce unemployment spells, ease transitions to new jobs, etc.
4.	<b>C4</b> Social security systems	Modern, adequate to the development period and, most	They provide adequate income support, encourage employment and facilitate labour market mobility.

		importantly, sustainable.	
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*Source:* Summarized from the *Joint Employment Report-JER*, March, 2011, pp. 10-26

We would like to point out the fact that the four above-listed elements outlining the components of flexicurity form in fact the operational concept of flexicurity, used by the European Commission in drawing up its strategies and policies, as well as in defining the framework of analytical tools and methodologies for this field.

Given the variety of opinions and concerns in this field, it is difficult to present a unitary definition of the concept of flexicurity. We will therefore outline a summary of the most representative definitions of flexicurity:

1. It refers to the unbreakable links between the changes occurring in terms of the legal and social rights of core-workers on the one hand, and those of temporary, atypical or flexible contract-based employees, on the other hand (Wilthagen, 1998, p. 1);

2. A policy strategy that attempts, synchronically and in a deliberate way, to enhance the flexibility of labour markets, work organization and labour relations on the one hand, and to enhance security - employment security and social security, notably for weak groups in and outside the labour market on the other hand. (Tangian, 2007, p. 10);

3. It promotes the idea of compensation of labour market deregulation / flexibilization) with advantages in employment and social security / securization (Wilthagen & Tros, 2004, p. 170);

4. A strategy aimed at mitigating the imbalances manifest on the labour market, as well as a specific framework for analysis, which can be used to identify the coordinates underlying the operation of this market (Pavelescu, 2010, p. 19);

5. A political approach attempting to reconcile employers' need for a flexible workforce with workers' need for security (FEICVM, 2009, p. 1);

6. Flexicurity policies can be analysed as types of combinations between different forms of flexibility and security which might involve individual workers, groups of workers or certain sectors or the economy as a whole (Viebrock & Classen, 2009, p. 9).

We can therefore infer that it is difficult to come up with a sole, clear definition of flexicurity. Nevertheless, a synthetic definition of the concept could be coaxed in the following terms: in contemporary economy, flexicurity represents a stage in the evolution of the institutional and legal framework specific for the labour market, which aims at fighting back the negative effects of a score of influences coming from the dynamics of real economy during the past three decades.

We would like to stress once again the fact that the changes in the economic and social field, some positive, some quite on the contrary, are owed to the development of globalization and the consolidation of a knowledge-based economy. Moreover, we should also bear in mind the impact of putting neoliberal policies into practice, which have been predominant since the 1980s and which have in fact

triggered these profound changes in all contemporary economies as, naturally, in the world economy.

### 3. Flexicurity: Models of Representation

As is the case with attempting to provide a unitary definition of the concept, it is hardly possible to impose a strict model of application for flexicurity policies, particularly given the sizeable variety of the countries involved, notably in terms of economic, social, structural, political and geographical criteria. However, various authors have managed to outline three distinct stages in the history of the evolution of this concept (Tangian, 2010, p. 2), each with its own clear coordinates pertaining to the significance and content of the "model of choice" at the respective time, as can be seen in Table 2.

**Table no. 2 Stages and Traits of Flexicurity**

Stage	Period	Specifics	Significant Traits
I	1995 - 2001	Security for the "flexibly employed"	<ul style="list-style-type: none"> <li>✓ In-depth labour market reforms in the Netherlands;</li> <li>✓ The beginning of the academic debates on flexicurity, without involving social partners;</li> <li>✓ The stakeholders were primarily interested in protecting atypical workers against the negative consequences of labour market deregulation.</li> </ul>
II	2001 - 2006	Flexibility–security trade-off	<ul style="list-style-type: none"> <li>✓ The European social partners began to be involved in the discussions around flexicurity;</li> <li>✓ A wide variety of entities involved (EC, EU, OECD, etc.) "deemed" the flexicurity approach appropriate for implementing their respective employment strategies.</li> </ul>
III	2006 - today	Security through flexibility	<ul style="list-style-type: none"> <li>✓ The consolidation of the concept of flexicurity, in the sense of "<i>securing flexibility by adapting labour force to flexible employment, primarily by lifelong learning</i>";</li> <li>✓ Flexicurity is credited with providing "more and better jobs";</li> <li>✓ It is considered that flexicurity contributes to labour market performance by improving economic competitiveness.</li> </ul>

*Source:* Summarized from Tangian, 2010, p. 2

At present, five different groups or clusters of flexicurity have been identified among EU countries, each with their own levels of meeting the requirements of the

two components (security and flexibility), as well as the effectiveness regarding the outcome of putting policies into practice (Table 3).

**Table no. 3 Flexicurity Models in EU States**

<b>Crt. nr.</b>	<b>Typology of the model</b>	<b>EU States where it is to be found</b>	<b>General traits</b>
1.	Anglo-Saxon system	UK, Ireland	<ul style="list-style-type: none"> <li>✓ high flexibility,</li> <li>✓ intermediate-to-low security,</li> <li>✓ low taxation,</li> <li>✓ efficient at fighting poverty,</li> <li>✓ inefficient at creating new jobs.</li> </ul>
2.	Continental system	Germany, Belgium, Austria and France	<ul style="list-style-type: none"> <li>✓ intermediate-to-low flexibility,</li> <li>✓ intermediate-to-high security,</li> <li>✓ intermediate-to-high taxation,</li> <li>✓ efficient at fighting poverty,</li> <li>✓ inefficient at creating new jobs.</li> </ul>
3.	Mediterranean system	Spain, Portugal and Greece	<ul style="list-style-type: none"> <li>✓ low flexibility,</li> <li>✓ relatively low security,</li> <li>✓ high taxation,</li> <li>✓ inefficient at fighting poverty,</li> <li>✓ inefficient at creating new jobs.</li> </ul>
4.	Eastern European (plus Italy) system	Poland, Hungary, the Czech Republic, Slovakia and Italy	<ul style="list-style-type: none"> <li>✓ intermediate-to-high flexibility,</li> <li>✓ low security,</li> <li>✓ intermediate-to-high taxation,</li> <li>✓ inefficient at fighting poverty,</li> <li>✓ inefficient at creating new jobs.</li> </ul>
5.	Nordic system	Denmark, the Netherlands, Sweden and Finland	<ul style="list-style-type: none"> <li>✓ intermediate-to-high flexibility,</li> <li>✓ high security,</li> <li>✓ intermediate-to-high taxation,</li> <li>✓ efficient at fighting poverty,</li> <li>✓ efficient at creating new jobs.</li> </ul>

*Source:* Summarized from Voss, Dornelas, Wild & Kwiatkiewicz, May 2011, p. 12

Careful analysis of the information provided in table 3 brings us to the observation that a series of EU27 member states don't clearly fall under any of the models. We mention in this sense Bulgaria, Cyprus, Estonia, Latvia, Lithuania, Luxembourg, Malta, Romania and Slovenia. The simple reason behind this is the fact that a mix of various models is currently applied in these countries, in their attempts to adapt the model of implementation of flexicurity policies to the economic, social, political, institutional particulars of each state. If we take Romania, for instance, we notice it falls on the border between the Mediterranean and the East-European

systems, with the following set of general characteristics: low flexibility, low security, high taxation, inefficient at fighting poverty and inefficient at creating new jobs.

#### **4. Methodological Framework of Flexicurity**

The system of indicators in the European Employment Strategy (EES) is used in order to analyse the four coordinates of flexicurity mentioned before.

The conceptual framework of the analysis of flexicurity relies on the use of three classes of indicators:

**I. input indicators**, concerning the quantitative assessment of rules and regulations pertaining to the provided benefits, services, etc. (we can include here, for instance, the public financial resources assigned to this purpose);

**II. process indicators**, referring to the weight of groups of people affected by the implementation of various policies or involved in the process of implementation (it measures in practice the extent to which various sets of measures are effectively implemented and have an effect);

**III. output indicators**, regarding the degree of satisfaction of the need for mobility on the labour market, such as unemployment, inactivity, work processes, etc. (it is recommended to use data provided by cross-sector statistical polls, which have a higher degree of complexity and relevance).

Another point to be considered refers to the use of specific, tailored data for groups or sub-groups of individuals, based on criteria such as gender, age, social environment, level of training, ethnicity, etc.

Moreover, we shouldn't overlook the fact that flexicurity should take into account the gap between the time or period of implementation of various measures, and the time when these measures have effects in the actual economy, in terms of the evolution of indicators such as employment rate, unemployment rate, work productivity, the quality of work processes, the degree of social inclusion, etc.

The criteria of selection for the indicators used in the analysis are as follows, based on the EES recommendations: they should closely reflect the EES guidelines; they should be clear and relevant (no ambiguous indicators should be used); they should be estimated by using sources harmonized to the EU level, as much as possible; they should allow for an identification of issues in reaching the targets; they should comply with structural indicators; they should be of good quality, etc.

A synthesis (Pavelescu, 2010, pp. 30-33) of the indicators used in assessing the degree of implementation of flexicurity policies (along the four components) is presented in Table 4.

Table no. 4 Evaluation indicators for the degree of implementation of flexicurity policies

Crt. nr.	Class of indicators	Type if indicators included
1.	<b>Input indicators</b>	<ul style="list-style-type: none"> <li>✓ Employees with flexible labour-contract - % of the employed population (<b>C1</b>)</li> <li>✓ Public spending on HRD* - as % of GDP (<b>C2</b>),</li> <li>✓ Expenditure on ALMP** -measures per person wanting to work (<b>C3</b>),</li> <li>✓ Expenditure on unemployment support per person wanting to work (<b>C4</b>).</li> </ul>
2.	<b>Process indicators</b>	<ul style="list-style-type: none"> <li>✓ Employees with undetermined-time labour contracts and employees working voluntarily on limited or fixed-time labour contracts as % of the employed population (<b>C1</b>),</li> <li>✓ Employees participating in HRD* programs as % of the total number of employees (<b>C2</b>),</li> <li>✓ Percentage of individuals wanting to work who participate in ALMP** (<b>C3</b>) as % of the total number of people wanting to work,</li> <li>✓ Unemployed individuals who don't run the risk of poverty as % of the total number of unemployed (<b>C4</b>).</li> </ul>
3.	<b>Output indicators</b>	<ul style="list-style-type: none"> <li>✓ Individuals with employment security at least equal to that of the previous year - as % of the total employable population (<b>C1</b>),</li> <li>✓ Individuals with a level of training, occupational status and wages at least equal to those of the previous year - as % of the total employable population (<b>C2</b>),</li> <li>✓ Percentage of individuals who wanted to work, who participated in ALMP** and who found employment within 6 months from participation to ALMP** (<b>C3</b>) as % of the total number of people wanting to work who participated in ALMP**,</li> <li>✓ percentage of people benefiting from on unemployment support - as % of the population wanting to work (<b>C4</b>).</li> </ul>
4.	<b>Context indicators</b>	<ul style="list-style-type: none"> <li>✓ GDP evolution,</li> <li>✓ Dynamics of work productivity,</li> <li>✓ Evolution of net average wages,</li> <li>✓ Growth pace and structure of investments,</li> </ul>

		<ul style="list-style-type: none"> <li>✓ Efficiency of international economic relations,</li> <li>✓ State budget balance, etc.</li> </ul>
5.	<b>Indicators specific to the labour market</b>	<ul style="list-style-type: none"> <li>✓ Employment rate as % of 15-64 years old,</li> <li>✓ Employment rate of senior population as % of 55-64 years old,</li> <li>✓ Self-employed as % of the total population,</li> <li>✓ Employment rate in the services sector as % of employed population,</li> <li>✓ Employment rate in industry as % of employed population,</li> <li>✓ Employment rate in agriculture as % of employed population,</li> <li>✓ Unemployment rate as % of the total 15+ labour force,</li> <li>✓ Unemployment rate for young population as % of 15-24 years old,</li> <li>✓ Long-term unemployment rate as % of the total labour force.</li> </ul>

*Source:* Interpreted from Ghinăaru, Pavelescu, Dimitriu, Modiga, pp. 30-33 and Eurostat, *Employment in Europe Report 2010*. \*HRD – human resource development. \*\*ALMP - active labour market policies.

For the first three classes of indicators, their correspondence with the four components of flexicurity (**C1, C2, C3, C4**) described in table 1 has also been indicated. In addition, the previous table also included two extra categories of indicators, alongside those directly associated with flexicurity, i.e. context indicators, meant to provide information referring to the dynamics of economic activity, such as the evolution of the GDP, of productivity, of average net wages, the pace of investments, the efficiency of international economic relations, public resources (the consolidated budget), as well as indicators that are specific to the labour market, aimed at assessing its functionality, performances on the market, etc.

### **5. Current Trends in the Evolution of Flexicurity**

Taking into account recent developments in the world economy, the Employment Committee of the EU has submitted for analysis the National Reform Programmes drafted by the Member States, based on the Europe 2020 objectives and the Employment Guidelines. Moreover, flexicurity policies have played a key role in these debates. Some of the most significant aspects emphasized during this analysis referred to:

- The need to increase the degree of participation of men and women to the labour market and the mitigation of social exclusion;

- The increased weight of measures aimed at creating new jobs, with a stress on improving the business environment and on developing greening economies;
- Drafting and implementing a coherent set of measures aimed at decreasing the degree of segmentation of the labour market, with special attention to limited-time labour agreements;
- Creating the right environment for an increasingly efficient operation of the labour market, by "improving" the balance between security and flexibility, taking into account the fact that a much too high flexibility would endanger employment security, while a much too rigid security would have a negative impact on the flexibility of working relations;
- Increasing the correlation between the offer in the formal educational system with employers' need for a labour force, with the purpose of facilitating the transition from school to active work life;
- Diversifying re-schooling and professional training programmes, with the aim of increasing the chances of the work force on the labour market;
- Drafting programmes focused on decreasing the number of individuals that could be affected by medium-term poverty or social exclusion, with the purpose of increasing employment and providing a sustainable system of social protection.
- Maximizing the length of employment of the labour force and mitigating the effects of breaks in the active work life, with the aim of providing for the sustainability of the pension system and for an appropriate level of pensions, etc.

The reforms aimed at boosting economic growth in the EU27 member states lay particular emphasis on the targets set in the fields of employment, education and social inclusion, respectively on the concept of a flexible, secure and inclusive labour market. Among the priority areas for reforms aimed at boosting economic growth, with a major impact on the labour market, we would like to mention the following: full employment; a high level of training and education of the labour force and the support of an inclusive economic growth, aimed at fighting poverty and exclusion. The measures envisaged by full employment are geared towards boosting employment as high as possible, particularly among the population segments currently challenged on the labour market.

As far as improving the level of training and education of the work force is concerned, it is deemed that approx. 85% of the jobs in the EU will require personnel with higher or medium education by 2020. Reaching this target or satisfying this requirement on behalf of employers will require sustained efforts by the Member States to reform their educational systems, both the formal and the informal sector, taking into account the fact that ensuring a high performance human capital is one of the crucial factors of sustainable development, of providing a high level of competitiveness and of a quantitative and qualitative increase of employment (Munteanu, Stankova, Murgescu, 2011).

Nevertheless, we note a still quite significant gap in the EU27 Member States among the current situations and the objectives aiming at decreasing the share of

early leavers from education, respectively of temporary breaks in education among the population aged 18-24, with an extremely low level of education at least at secondary level, from over 15% at present to below 10%, and respectively increasing tertiary educational attainment for the segment aged 30-34 from the current average of approx. 31% to over 40% (*Europe 2020 Indicators*, Eurostat, Brussels).

The need to promote inclusive economic growth, aimed at fighting poverty and exclusion, was generated by the fact that the risk of poverty and exclusion is of 58% among the unemployed, as opposed to 13.5% among employed individuals, according to the analyses published in the *Joint Employment Report-JER 2011*. Under these circumstances, there rises the issue of the sustainability of the social security systems currently used and of the urgent need to render them more efficient through measures such as simplifying the bureaucracy specific to this field; simplification of rules leading to the bureaucracy specific to this field; reduction of administration costs through investment in high-end technology; performance indicators, or addressing fraud and error, etc. Yet increasing the level of performance of social welfare systems should take into account drafting and implementing active strategies of inclusion, primarily aimed at sustainable employment or reintegration on the labour market.

But according to official EU statistics, one of the greatest issues among the negative effects of the world economic crisis is a sustained high rate of unemployment, which worries both the population and the authorities. At the onset of the economic crisis in whose grip we still are today, the complex structural issues of the labour market had already come to the attention of EU decision-makers (*Joint Employment Report-JER*, March, 2011, pp. 3-6). Moreover, given the enhanced tensions in the euro area, it is difficult to forecast the extent to which flexicurity policies will be successfully implemented, particularly in countries which are still behind the EU27 targets in this sense (see the structuring per models in Table 4).

To summarize the issues outlined in this section of the paper, we note that, despite the efforts of European decision-makers to promptly implement the principles of flexicurity in the Member States, we are currently confronted with an increased volatility of employment, aggravated social insecurity, enhanced interventionism on the labour market and increased unemployment, particularly among the young population. At the same time, it is notable that flexicurity policies can be efficiently implemented only in those countries that are early starters in this process (such as the Netherlands and Denmark) or in countries with a solid economy and a tradition of efficient social security systems (such as Sweden, Finland, Germany, Belgium, Austria and France).

Another point we would like to stress is the fact that it is very difficult to comply with the principles of flexicurity in times of economic crisis, much less to coherently implement related policies. Finally, perhaps the most important point is that none of the flexicurity models has so far been efficient at creating new jobs, which means that even EU27 countries with high economic and social performances

should undertake even more strenuous efforts than before in order to boost the real economy and reform the system underlying the operation of the labour market.

## 6. Conclusions

Taking into account the complex issues tackled in this paper, we would like to point out the fact that a series of policies and measures have been drafted, which Member States are to integrate into their National Reform Programmes, in order to project structural reform measures, in correlation with their own specifics and development needs. Among these, we mention the following:

1. Decreasing the contribution to the social security systems of companies employing individuals who are part of vulnerable groups; who are first-time employees; who re-enter the labour market; who are women or parents re-entering the labour market at the end of child-care periods; who are aged and unemployed, etc.

2. Providing decent wages for employees and promoting active measures aimed at the unemployed youth;

3. Providing incentives for the employment of women and increasing the internal flexibility of work processes within companies;

4. Redesigning social protection systems for the unemployed in order to motivate them to find employment;

5. Enhancing the efforts made to implement flexicurity strategies, in order to mitigate the segmentation of national labour markets, etc.

Moreover, we would like to mention the necessity, comprised in the Europe 2020 Strategy, of ensuring the convergence of policies aimed at employment, innovation, research and development, environmental protection and industrial development, so that new employment opportunities are created for the work force. Yet we also note that the approach which was unanimously adopted during the last decade of the 20th century - job protection - leads to the rigidity of the labour market and prevents the creation of new jobs. At the end of the first decade of the new millennium, the aim of public policies is to ensure the balance between flexibility and security on the labour market, so that: more new jobs should be created; there should be conditions for the lifelong development of human resources; the skills and competences of workers should be more efficiently employed.

Experience has shown that decreasing job protection has led to new jobs only on the short term. At the same time, the sole support of flexibility has had a negative impact on the ability of the market to create new jobs in the long run. The last point we would like to make is that, during the past few years, we have been confronted with a pronounced segregation of the labour market into two categories of workers - highly-qualified, well-paid and safely employed individuals, and respectively poorly-qualified, poorly-paid individuals lacking secure employment - which has served to aggravate the insecurity on the job market for the second category.

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## CONSIDERATIONS REGARDING THE INCOMES AND THE PUBLIC DEBT

George Măgureanu\*

### Abstract

*The general objective of this paper is a topic of present interest, taking into consideration the state's need to collect the funds from the tax payers, in order to meet the public needs, which are greater and greater in the present stage.*

*Through a documentary research, this paper identifies the dimension and the general principles in order to collect and administer the public funds efficiently, under the actual European and national conditions.*

*In the content of the paper, we make a detailed analysis of the main objectives regarding the following aspects: the concept of budgetary incomes system, the sources of origin, the ways of collecting and using them to pay off the public debt.*

*If these principles are applied, essential changes regarding the incomes and the public debt will take place, leading to a better enforcement of the legal national provisions and the European Directives, in order to harmonise the national legislation with the European Union legislation.*

**Keywords:** budgetary incomes, public debt, financial public resources, tax payer, income taxes

### JEL Classification: K 20

1. In all the nations, the state had and still needs financial resources to finance its expenses and support itself from the public incomes, which it collects from the tax payers, the non-corporate or corporate bodies.

Unlike private persons, which aim to maximise their own utilities, the expenses are undertaken according to the limited interest of the one who makes them, the state aims to achieve incomes in order to invest money in those fields which are not capable of getting finance by themselves, this aspect being beneficial to the entire society. According to the doctrine, in order to designate the state's resources or funds, various designations are used, such as: "public incomes"<sup>1</sup>, "financial public resources"<sup>2</sup>, "budgetary incomes"<sup>3</sup>.

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<sup>1</sup> N. G. Leon, Elements of financial science, vol. 1, p. 198-200; D.D. Şaguna, Financial and fiscal law, Publish. House All Beck, 2003, p. 329.

<sup>2</sup> I. Văcărel, G. Anghelache, Gh. D. Bistriceanu, T. Moşteanu, F. Bercea, M. Bodnar, F. Gergescu, Public Finance, The Didactic and Pedagogic Publishing House, 4th edition, Bucharest, 2003, p. 338 and the next one.

We believe that the designation "budgetary incomes" expresses better the nature and the destination of these resources; for this reason, we especially want to analyse them from the angle of the state's public debt and its central or local bodies.

We mentioned in our study that it was made a clear distinction among the notions *wealth*, *collection* and *income* in the older doctrine. Thus, it was mentioned that "wealth" is considered someone's amount of goods, at a certain moment, above its current needs<sup>4</sup>. *Wealth* is able or is not able to bring out *incomes*.

For the budgetary incomes, one has to take into account that the state achieves them through its activity, through the coercion of income taxes and other taxes, as well. Therefore, by rights it was asserted that for the state, all the goods it gets in a certain period of time are called incomes, not having the obligations to refund them. The income sources of the state are the citizens' wealth and incomes<sup>5</sup>.

In the broader category of the budgetary incomes, it must be also included the non fiscal incomes such as those obtained from the economic activities carried out by the state's enterprises, from the efficient use of the state's goods, donations, vacant successions, money issue, monopolies, etc.

The financial public resources together with the financial private resources are the society's financial resources. Therefore, the relation between the society's financial resources and the financial public resources is a relation between a whole and a part. The financial public resources, the public funds or the total public funds include the resources of the central and local state administration, the resources of the social state insurance and resources of the public autonomous institutions.

The actual allocation of resources between the public and the private sector establishes a certain proportion between them, enabling the optimisation for the allocation of resources if the customers' needs are fully met, through the public and private sector<sup>6</sup>.

Regarding the financial public resources, taking into consideration the opinions from the specialty literature and practice, after the undertaken research, we reached the conclusion that these public incomes are the money means, instituted by law, which contributes to the collection of funds available to the state, as necessary means to reach the economic and social goals in a certain period of time, having no obligation to refund them.

Lately, we have noticed that the demand for public incomes has been on an increasing trend, owing to the rapid growth of the social needs, the role and the functions of the state and implicitly the public expenses, a rhythm that surpasses all around the world the increasing rhythm of the gross domestic product.

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<sup>3</sup> M. Șt. Minea, *The law of public finance*, Publish. House Accent, p. 92; C. D. Popa, A. Fanu-Moca, *Financial Law*, Publish. House Lumina Lex, 2003, p. 85.

<sup>4</sup> N. G. Leon, *Elements of financial science*, vol. 1, p. 198-200.

<sup>5</sup> *Idem*.

<sup>6</sup> I. Văcărel and collaborators, *op. cit.* p. 339.

If we analyse the population's capacity of contribution, implicitly the effective collection of the public incomes available to the state, we noticed it is influenced by the following aspects:

- the evolution of the gross domestic product whose growth can lead to the increase of the taxable incomes, respectively of the financial resources available to the state or, depending on the case, their decrease;
- monetary factors, which can influence prices through interests, monetary mass, loans, etc<sup>7</sup>. The increase of prices and inflation establishes the growing resources from income taxes and other taxes;
- demographic factors which can influence the number of the active population and the increasing number or the decreasing number of the tax payers and the population that benefit, in various ways, from the use of the public resources;
- political, social and military factors which establish the redistribution of resources in order to meet the education, protection, social insurance, health, national defence and safety needs; these factors, under certain circumstances, can lead to growing resources which have effects upon the fiscal rate;
- financial factors, which synthesize and cumulate the influence of other factors, according to the degree of the public expenses. The volume of the public expenses influences the growth of the budgetary deficit and its security requires additional public resources.

It is also noticed that the growing need for resources available to the state had and still has as consequence a diversification of the means so as to achieve them, which aims mainly at the fiscal incomes. In the field of state monopolies, the exploitation of the state's goods, the economic activities carried out by administrations or companies with state capital, certain measures are taken to increase the public incomes. These are achieved by: the obligatory withdrawals, consisting of tax incomes, other taxes, contributions; incomes from economic activities and efficient use of the state's goods; random incomes resulted from: donations, vacant successions, non-owned goods, the resources resulted from public loans, the monetary issue.

One should notice that the financial public resources are divided according to: economic criteria, the structure of the budgetary system; they are got and administered through the unitary budget system, namely: the state budget, the state's social insurance budget, the local budgets, the budgets of the special funds, the budget of the state treasury, the budgets of the public institutions.

We noticed that there are many categories of incomes in our budgetary system, which are at the basis of the already mentioned budgets, such as: resources of the state budget resulted from: current incomes, capital incomes and money collections resulted from the reimbursement of the granted loans.

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<sup>7</sup> See also L. Bercea, Money and banks. A legal perspective, Publish. House Universităţii de Vest, Timişoara, 2006

Other incomes that contribute to the achievement of the budgetary incomes are the current ones, such as: fiscal incomes resulted from direct and indirect taxes; non fiscal incomes resulted from loans, monetary issue, donations, etc.

The resources of the local budgets have a great importance in achieving the state's budgetary incomes, consisting of: the own fiscal and non fiscal incomes (e.g. the sums resulted from rents, the selling of certain goods or publications, the efficient use of certain products resulted from their own activity), etc.

We identified the following incomes in the category of public non fiscal incomes: incomes resulted from the economic activities and the sale of the state's goods, incomes resulted from the state's, district's or village's property or exploitation, which have properties they exploit by themselves or appoint other persons to exploit them .

It was mentioned in the specialty literature that the European states, especially those with a precarious financial situation, achieved incomes by selling land, mainly farm and forest land, if the state cannot exploit or manage these resources efficiently. Romania was not an exception; after 1989, the selling of the state's goods, concentrated in its hands through nationalisation, perpetuated within the privatisation process, but the efficiency and the fairness of the process was and still is a subject of dispute at the political and juridical level<sup>8</sup>.

A significant part of the public incomes is also achieved through the state monopolies<sup>9</sup>, concerning certain products, such as: salt, alcoholic beverages, tobacco, or through the manufacturing and commercialisation activities, such as: the manufacturing and commercialisation of dopes and medicines containing doping substances, the extraction, the manufacturing and industrial processing of precious metals and precious stones, the manufacturing and the issue of postal and fiscal stamps, etc even if it is an indirect tax; all these depend on the state's coercive power. In Romania, the aspects referring to the state monopoly are regulated by the Law no. 31/1996 regarding the regime of the state monopoly<sup>10</sup>.

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<sup>8</sup> In this respect, art. 29 of The Law no. 273/2006 regarding the local public finance, provides that the sums resulted from the selling, according to the law, of certain goods belonging to the private sector of the administrative-territorial units are totally considered incomes of the local budgets and are included in the development section, by the local budgetary rectification, if collected. The law was published in The Official Monitor, Part 1 no. 618, July 18, 2006 and modified, inclusively through The Emergency Ordinance no. 102/2011, published in The Official Monitor, Part 1 no. 854, December 2, 2011.

<sup>9</sup> See also: I. Văcărel, F. Bercea and collaborators, Public finance, 3rd edition p. 424, C. Popa and Fanu-Moca, Financial law, Publish. Lumina Lex, 2003, p. 127.

<sup>10</sup> The Law no. 31/1996 regarding the regime of the state monopoly, published in The Official Monitor, Part 1 no. 96, May 13, 1996, modified according to The Law no. 171/2001, published in The Official Monitor, Part 1 no. 184, April 11, 2001. According to art. 1 of The Law no. 31/1996, modified, the state monopoly is considered the state's right to establish the permission regime of the economic units, which have state and private capital, including the private producers, depending on the case, to the economic activities, which make up the state monopoly and the conditions to exercise them.

Monopolies offer an exclusive right in a field of activity (manufacture, commerce, exploitation of goods), the incomes achieved by the state from monopolies, consisting of both the profit achieved during the process of manufacturing, selling, exploiting, which the state achieves as every economic unit, under privileged conditions, and the indirect tax is included in the price, being collected from the consumers of these goods.

Nevertheless, when the state has an exclusive right in a field, it does not exercise the right to levy taxes on certain non corporate or corporate bodies by obliging them to make contributions, but the state exercises a right of regulating certain economic activities which it preserves to exclusively carry them out, even if this aspect is undertaken to make budget incomes. Ordinarily, the incomes on the activities made under monopoly conditions should be higher than those achieved from the taxes included in the prices of the products made by the state monopolies, except the case in which the profit is the exclusive result of including certain taxes in the selling price of the products. But, in the latter situation we cannot speak about an economic activity of the state. And if, in case of monopolies, the state's incomes have two components: those resulted from profits and those resulted from taxes, then the inclusion of the fiscal monopolies in the category of indirect taxes is subject to criticism. But, undoubtedly the tax on the product consumption made under monopoly conditions is an indirect tax, too.

Unlike the situation in case of other taxes, income taxes, contributions, the coercive power is exercised by the state against the tax payers from which it collects them, according to the measures of authorities; in case of state monopolies, the state preserves only a right, an activity, a certain type of commerce from which it gets an income, which is different from the income resulted from a levied tax<sup>11</sup>.

The important incomes, made by the state from the fiscal monopolies consist, on the one hand, of the profit resulted from the manufacturing process of these goods, which the state achieves as every entrepreneur, and on the other hand, of the indirect tax included in the price, collected from the consumers of these goods. Only the state is entitled to produce and sell these goods, having the right to establish the price including the indirect tax.

We also enumerate a few countries with fiscal monopolies that bring out relevant collections: Italy (on tobacco and matches), Germany (on alcohol or alcoholic beverages), Spain (on tobacco and oil) and Tunis<sup>12</sup>.

A way to finance the budgetary deficit is the uncovered money issue, which yet has negative effects on a medium and long term, too. It should be noticed that, on a short term, on the one hand, an increasing inflation leads to the increase of the fiscal resources, by enhancing the collections resulted from the income taxes and indirect taxes, especially those belonging to the value-added tax and fuel taxes; this aspect is

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<sup>11</sup> I. Văcărel and the staff, op. cit., p. 424.

<sup>12</sup> I. Văcărel and collaborators, op. cit. p. 424; V. Roș, Financial law. The budgetary system, Publishing House Universul Juridic, Bucharest, 2009, p. 243.

the advantage of the uncovered money issue. On the other hand, the inflation establishes, in real terms, a decrease of the state's payment obligations, mainly regarding the public debt, when the interest rate for the state loans is below the yearly increase of prices, expressed in percentages.

Some authors include the treasury resources in the ways of getting financial public resources. The provision of concordance between the level of expenses and the level of incomes establishes the resort to the treasury resources, consisting of loans on one year term, which are contracted on the capital market, by issuing and selling certain state titles (deposit certificates, treasury bonds, etc.). Treasury resources are used to cover temporarily the present deficit of the state budget, the social insurance budget, to fill the gaps of the cash registers registered at the local budgets and the temporary deficits of the budgets for special funds. The treasury resources are temporary and refundable, involving costs determined by the interest for the state titles on a short term and the expenses related to the wide use and withdrawal of these titles.

We think that treasury resources cannot be income sources for the state budget, being used, as a rule, for consumption; This way, they do not produce value-added taxes, the payment of interests and the loan reimbursement being paid from the budgetary fiscal incomes, meaning income taxes and other taxes.

The second important aspect of our study and analysis is the public debt, which has two origins: the first one is represented by the expenses that surpass the incomes, whereas the second one is represented by loans, which are made, as a rule, to meet the expenses of the deficit caused by the excessive expenses.

The expenses which surpass the incomes trigger the state loans. For this reason, sometimes it is asserted that the public debt is generated by the state loans, either domestic or foreign.

We do believe that the indebtedness degree of a country is given by the reation between the balance account of the public debt and the gross domestic product; this index shows to what extent the value added tax to the gross domestic product for one year is subject to severe conditions or to what extent the gross domestic product must be used within a year for the payment of the public debt. However, no country is able to allocate the entire gross domestic product to pay the public debt; for this purpose only a part of the GDP is useful, as it remained after the withdrawals necessary to the consumption fund and the achievement of gross capital. Among the countries with the greatest volume of public debt we enumerate: U.S.A., Germany and Great Britain; among the countries with the greatest index per inhabitant for the public debt we enumerate: Switzerland, U.S.A., Austria, Germany, Netherlands, Great Britain and Norway.

The public debt of the state results from the total amount of money indebtedness the state has to pay to any person entitled to collect the payment or the equivalent of the service provided to the state or to its bodies and whose price was not paid, the damages the state must pay to the complainants according to administrative deeds, or according to trial verdicts. The Emergency Ordinance of

The Government no. 64/2007 regulates the public debt<sup>13</sup>, in the 2nd article, defines public debt as being the total amount of money indebtedness such as the government and the local public debt; the government public debt consists of the total amount of the state's debts at a certain moment, resulted from refundable financing according to contracts or guaranteed by The Government through The Ministry of Economy and Finance, whereas the local public debt is the total amount of the administrative and territorial units' indebtedness, at a certain moment, resulted from refundable financing according to contracts or guaranteed by the authorities of the local public administration. The public debt can be expressed both in national and foreign currency; to evaluate Romania's public debt, any indebtedness expressed in foreign currency is calculated according to the national currency, using the exchange rate stated by The National Bank of Romania on the latest banking day of the reporting period.

Furthermore, there are opinions according to which the public debt consists of the totality of pecuniary money indebtedness contracted by the state, the administrative-territorial units, and other public entities as well, through loans, from the Romanian and foreign corporate and non corporate bodies, which are going to be reimbursed at a certain moment. According to these opinions, the debt is the amount which must be paid according to a capital title, interests and other expenses for the loans made by the state or the total amount which must be paid for the refundable financing.

The service of the public debt is provided by the total amount represented by capital rates, interests, commissions and other costs belonging to the public debt, resulted from refundable financing or guaranteed by The Government, through The Ministry of Public Finance, or by the administrative-territorial units, through the authorities of the local public administrations, for a determined period of time.

We proposed ourselves to make a brief analysis of the general framework and the principles of the public debt administration, regulated by The Emergency Ordinance of The Government no. 64/2007.

The management and the administration of the public debt is provided by law, by the Ministry of Public Finance, which has the authority to establish the daily balance of the general account of the state treasury, the prospective degrees of demand for liquidities, the expiration of the public debt, the accounts with the adequate interest and the refinancing or the decrease of the public debt.

Therefore, The Ministry of Public Finance must undertake an ensemble of operations regarding the dimension, the structure, the decrease and the evolution of the public governmental debt, including the refunding/reimbursement, the modification of its characteristics, the registration and its report and as well as the management of the risks related to the public government debt and the undertaking

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<sup>13</sup> The Emergency Ordinance no. 64/2007 regarding the public debt, was published in The Official Monitor, Part 1 no. 439, June 28, 2007, modified according to The Law no. 324/2009 inclusively, published in The Official, Monitor, Part 1 no. 713, October 22, 2009.

of an ensemble of operations for the authorisation and monitorisation of the local public debt.

The public credit can be domestic or foreign and so the public debt can.

The domestic public debt is the part of the public debt which represents the total amount of the state's indebtedness, resulted from loans contracted directly or guaranteed by the state for the national market, including the sums received temporarily from the sources of the state treasury. It is the state's unconditioned and irrevocable obligation to reimburse the loans in Lei, to pay the interests and other afferent costs.

Unlike the domestic public debt, the foreign public debt is a part of the public debt representing the total amount of the state's indebtedness, resulted from loans on the foreign market, which are contracted directly or guaranteed by the state. Also, this debt is the state's unconditioned and the irrevocable obligation to reimburse the loans contracted on the foreign market, together with the payment of interest and other afferent costs.

In order to payoff these debts, except the sources mentioned to achieve the necessary incomes, the state must make loans on a short, medium or long term.

The state loan on a short term creates the public floating debt, meaning the debt contracted to cover certain budgetary deficits, certain unforeseen expenses or other requirements of this kind; it must be reimbursed, as a rule, in the same year or in the same budgetary exercise, being postponed from one budgetary exercise to another, at the most.

Long term loans generate the public consolidated debt, which represents the result of the state loans contracted on longer terms, for money needs or public expenses which, in time, maintain themselves many years or even have an unlimited perspective in time and according to this unlimited perspective the public consolidated debt can be refundable and permanent.

The public refundable debt can be refunded in due time without contracting new loans, whereas new public loans are required for the refund of the public permanent debt

For the service of the public government debt, there are payment sources as follows: the availability of the current general account of the State Treasury, the refundable financing on the state's behalf, refinancing the public government debt, the expenses provided in the state budget, the budget of The State Treasury and further on, the state budget, in case of paying the interests for the benchmark<sup>14</sup> state

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<sup>14</sup> The benchmark state titles are financial instruments on a medium and long term period, having the following characteristics:

- the coupon rate, as the yearly interest rate for the benchmark state titles is established before their launching and it is mentioned in the issue prospectus;
- the issue date is the discount day for the series of the benchmark state titles;
- allow reapertures, having the same characteristics with the initial issue, respectively ISIN, the coupon rate, the date of the coupon payment and the expiration date; the reaperture date is the date the nominal value of the benchmark state titles in use increases;

titles, the sums collected from subloaners by The Ministry of Economy and Finance, according to the agreements made with them, obeying the conditions of the agreements, which involve the refundable financing, the sums provided in the budgets of the corporate bodies which contracted refundable financing with the state's warranty, the risk fund made by The Ministry of Economy and Finance for the situations in which the subloaners do not fulfil their obligations provided in the agreements with The Ministry of Economy and Finance, the State Treasury sums in the account of the loans with the state's warranty contracted by the credit officers or The Ministry of Economy and Finance, which are subloaned by them and taken over to be managed by The Ministry of Economy and Finance and other sources as well, according to the law.

The National Bank of Romania, according to the agreements made with The Ministry of Economy and Finance, acts as a state agent to refund the public government debt contracted in a foreign currency and organise auctions for the state titles on the domestic market.

For the activities undertaken by The National Bank of Romania as a state agent in order to reimburse the public government debt and offer the issue of state titles to third parties, The Ministry of Public Finance is entitled to pay commissions from the state budget, whose quantum is established in the agreement between the two parties.

According to the provisions in article 3, paragraph 5 from The Emergency Ordinance, the incomes, respectively the expenses resulted from the managerial operations for the public government debt, represent incomes, respectively expenses of the budget state or the budget of The State Treasury; for this reason, an analysis of the budgetary incomes cannot be made without an analysis of the budgetary expenses, too.

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- the coupon is paid annually, the date of the coupon is a standard date established in the issue prospectus;

- The interest payment for these titles is done from the budget of The State Treasury, according to the budgetary loans approved for this destination, in the state title 55.09, article 30.01, paragraph. 30.01.01 "Interests belonging to the direct public domestic debt" and further on from the state budget, chapter 55.01 "Transactions regarding the public debt and loans", the state title 30 "Interests", article 30.01 "Interests belonging to the public domestic debt";

- the expiration date coincides with the date of the latest coupon;

- the accumulated interest is the interest calculated for the period mentioned in the coupon, which is anterior to the issue/reaperture date and the issue/reaperture date, according to the coupon rate, following the up-to-date/up-to-date method;

- the accumulated interest will be mentioned in the issue prospectus for the series of the benchmark state titles and it will be paid by the participants in the primary market for the state titles when the discount/reaperture issue takes place;

- the net price is the multiplication between the price quotation expressed in 4 decimals and the nominal individual value of a state title;

- the gross price is the sum between the net price and the accumulated interest (art. 2<sup>1</sup> in The Emergency Ordinance no. 64/2007 regarding the public debt).

To conclude, we mention that the need for state loans in order to provide public incomes, must take into account the relation between the debt and the national income, otherwise loans are unsafe and budgetary deficits appear.

Also, we reached a doubtless conclusion that the indebtedness degree of a country is given by the relation between the degree of the public debt and the gross domestic product, meaning the extent to which the value added to the gross domestic product within a year must be used to pay the public debt within a year, taking into consideration that a country cannot allocate the gross domestic product to pay the public debt. At this moment, certain resources must not be consumed because they must be available to the prospective consumption.

The analysis of the structural deficit dynamics in relation to the economic approach towards the economic cycle, will enable us to estimate to what extent the fiscal policy acts as a stabilizer, or the opposite.

The accumulation of these budgetary deficits from one year to another leads to even higher levels of public debt; a state which has more and more debts eventually will go to bankruptcy, because the non refunded public loans become higher and higher and this consequence makes them harder to pay off.

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## MULTINATIONAL COMPANIES UNDER THE GLOBALIZATION CONTEXT

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### **Abstract**

*The main reasons that compel companies to internationalize their assets refer to obtaining both the highest possible profits against the lowest costs, and also an increased profitability. This being the context, the transnational companies shall become the globalization process main motor, since they operate within a global – type economy that relates to: global production, global capital, global market, respectively. The later ones can be achieved by means of capitalizing those opportunities that other countries provide with cheaper material and human resources, by way of penetrating on markets that are advantageous from the export point of view. Given such a context, the principle criteria, that the multinational companies take into consideration while they are being under the development process of their domain of activity at the global level, by setting up new branches in other geographical areas, refer to the interference of factors such as the free circulation of labour and commodities.*

**Keywords:** multinational companies, globalization, world – wide community, international exchanges

**JEL:** F23

### **1. Globalization significance from the multinational companies' perspective**

*“Despite these uncertain economic times, globalization continues ... Forecasting the future is risky, but it is clear that volatility is increasing, as government debt downgrades, the shifting political environment and stock market fluctuations all illustrate. How can companies succeed in this highly connected and volatile world? In any volatile situation, size and strength aren't advantages - speed and agility are. So companies must develop highly nimble operating models that enable them to respond to new opportunities and new threats. Doing so quickly will require the right balance of local and global decision-making. At the same time, new competitors are emerging. Companies from rapid-growth markets are investing in innovation and expanding worldwide ... What is certain is that in 2012 and beyond, old models must make way for new solutions.”*

**James S. Turley**, Chairman and CEO, Ernst & Young,  
*The 2011 Globalization Survey*

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The contemporary international economic policy is characterized by unprecedented aspects such as: *multinational products, financial flows between countries, international exchanges*. This economic policy is counteracted by political conflicts between individuals, groups, social classes and countries. The contradiction between the developing economic integration and the welfare that it gives birth to, on the one side, and the wish to have political control and national autonomy, on the other hand, characterizes, with priority, the contemporary period.

Since they operate in an economic system inside which the interdependence relationships have amplified, the so called **global market** being thus outlined, the researchers have been facing new requests as concerns the explanation method of the world – wide economic mechanism new characteristics, mechanism that is marked by the high level internationalization process of the relationships between companies, fact that is modifying the entire architecture of the world - wide economy. This way, the concept that contributes to the understanding of the nature and consequences of all such changes was particularly the *economic globalization* concept.

The **economic globalization** concept has appeared as triggered by the need of the economic theory to use new notions that would be capable to accurately explain the major transformations that have lately occurred to the world – wide economy, and particularly during the past two decades (*inflation rhythm, economic integration process evolution, technological modifications, competition intensification, impact on the environment, etc.*).

At the world – wide level, the globalization process registers different evolutions while there also exist open-eye visible contrasts between geographical zones right inside the same state (considerable differences have been registered as concerns the way in which the globalization issue between the West and the East of **Germany** has been approached, as well as between the South and the North of **Korea**, etc.).

The globalization term significance can be analyzed and understood from different points of view. The globalization phenomenon can be characterized if reported to three essential features: *its universal nature, the economic and social implications that it generates, and the manifestation intensity*.

In the specialists' opinion, the globalization phenomenon shall be looked at under the form of the competitive advantage that is likely to be obtained by a company further to this one's decision to extend its activities to the global level, since **the competition advantage** can be obtained by a company under the conditions in which the activities this one develops are consistent with the efficiency criteria, and if the costs with labour are low. This way, globalization shall be perceived as a continuous process to be characterized by **particularities** such as: *foreign investment development, export activity amplification, and strategic alliance development at the international level, in view of extending and orienting the companies' activities to new markets*.

Despite the above, the globalization phenomenon should not lead either to the elimination of each company's local specifics and of the area differences, or to the developed countries' policy to enforce their own success models, but, on the contrary, this phenomenon should trigger the integration of the differences into a

common model to be applied at the world – wide level, model whose main goal would consist in obtaining success.

As far as the multinational companies are concerned, globalization shall be perceived as *one of the most important factors that have an impact on such companies' activity*. The firms start from the premise that they have to quickly adapt to the clients' new requests, as such requests imply to implement a flexible organization, to set global logistics, and to extend the collaboration with other companies with the purpose to capitalize the opportunities that already exist at the world – wide market level.

Henceforth, reorganization, re-technologization and specialization – they all decisively contribute to maintaining and developing the company's activity in the new competition environment.

Changes have marked particularly the multinational companies' management that shall consequently take the necessary steps if the intention is to assure the company's competitiveness in the European and international economic context that is characterized by: *re-structuring and re-organization; development of that company culture that would be in favour of performing change and of turning efficient the company's activities by way of modifying its mentality towards change; assurance of the employees' satisfaction for the provided work, and increase of the company's good name by improving its quality and increasing the level of its procurement process*.

All the same, globalization implies an extension of the company's businesses to other markets where the request level is higher than the offer level. To this purpose, the firms shall be compelled to adapt their manufacturing conditions to the ones that already exist at the local level, to enlarge the range of products and services, and to adapt to the local organizations' managerial culture. The development of activities abroad provides the companies with new perspectives to capitalize their own resources, and, this way, *the place occupied by the internationalization process* within any organization's general strategy acquires new valences.

A definition provided by Mr. **John H. Dunning**<sup>1</sup>, a British Professor, (Academy of International Business), who dealt with the globalization phenomenon and with the multinational corporation – related issue, stipulates that “globalization refers to the multiplication of bonds and interconnections between those states and the companies *that are, as of the present moment, part of the world – wide system*”. This definition presents the process by means of which the events, decisions and activities that are being developed in a part of the world have significant consequences for individuals and communities that are separated by vast distances between each other.

This is the way in which there are outlined two distinct characteristics of the phenomenon: *domain of activity* (area) and *intensity* (or profoundness). On the one hand this defines a set of processes that cover almost the entire earth, or that operate all over the world, fact that confers this concept a spatial connotation. On the other hand, this implies the intensification of the interaction, interconnection or

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<sup>1</sup> Dunning, J. H., *The Advent of Alliance Capitalism*, United Nations University Press, New York, 1997; p. 12.

interdependence levels between those states and companies that make up the world – wide community. Therefore, besides the extension of the connections, there also takes place a widening and deepening of the global processes.

At the same time, Mr. John H. Dunning outlines two globalization forms: *a superficial one and a profound one*. The former one has in view the involvement of a country, as an independent economic entity, in commercial exchanges, with only one product, with another country that is also looked at as an independent entity. The latter globalization form has in view the transactions that a state carries out with a large number of states from all over the world

A global firm has or controls a large number of branches that are located in different places of the earth, and it is engaged in alliances and business relationships across almost all the continents. Such a firm procures the production factors it needs (raw material, capital, labour and other intermediary products) from wherever it is more advantageous, and, at the same time, such a firm trades its products and services on whatever more important world – wide market. Similarly, a country that is open to globalization forces has commercial, financial and investment relations that are highly diversified from the geographical point of view, and the added value that is associated to such relations represents a significant part of the gross internal product<sup>2</sup>.

As concerns the size and the operation of the companies from abroad, there has been outlined<sup>3</sup>, by means of the *O.L.I. paradigm*, a series of representative factors:

- the *O Factor (Ownership Advantage)*, also referred to as “the competition capacity that is specific to the organization“ - it refers to the new products that have been launched on the market, to the company’s research – development capability, to the know – how that is specific to the firm;

- the *L Factor (Location Advantage)* – it represents the advantages that are specific to the company from the regional point of view, and it quantifies, in a global expression, the wage level from a certain zone that is of interest for the company; the corresponding infrastructure; the political bottlenecks that the new investors are facing; the technological dynamics; the tax system that is characteristic for the respective zone;

- the *I Factor (International Advantage)* – it mainly underlines the analysis of the transactional costs that are consistent with the firm’s own activities or it underlines the analysis of the results of the cooperation with third party companies.

There is no accurate delimitation between these factors, but, however, there is a reciprocal dependency relationship as follows: the factors that are specific to the firm (represented by the O factor) influence the location factor (L) as the investor promotes the competition advantages he has available abroad, as well. Any local disadvantages (L) that might occur can be compensated by lowering the transactional costs.

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<sup>2</sup> Pandelică A., *Companii multinaționale: strategii de marketing*, Editura Economică, București, 2006, pg. 67

<sup>3</sup> Dunning, J. H., *The Advent of Alliance Capitalism*, United Nations University Press, New York, 1997.

## 2. Globalization and the new increase strategies

Based on the study that the consultancy company called Ernst & Young finalized at the beginning of 2012, study by means of which the above named company announced the countries' classification as reported to the globalization index for 2011, **Romania** maintains its middle classification position as concerns the countries with the highest degree of openness to globalization (*position 32, index 4.05*), after its neighbours: **Hungary** (*position 10, index 5.19*) and **Bulgaria** (*position 26, index 4.25*); but, however, in front of countries such as: **China** (*position 39, index 3.56*) or **Japan** (*position 40, index 3.47*), in compliance with the globalization index calculated by Ernst & Young for 2011<sup>4</sup>.

The globalization index that was set for this report measures the performance of the biggest 60 economies at the international level, while taking into account 20 indices (openness to trading activities, capital movements, exchange of ideas and technologies, labour flexibility and cultural integration) that contribute to assessing the key aspects of the cross-border integration of the economic activities.

The first positions are taken by **Hong Kong** (*position 1, index 7.42*), **Ireland** (*position 2, index 7.24*) and **Singapore** (*position 3, index 6.88*), while **Venezuela** (*position 58, index 2.80*), **Algeria** (*position 59, index 2.63*) and **Iran** (*position 60, index 2.13*) occupy the last three positions.

The consultancy company points to the fact that, although the globalization process, re-launched, has registered an upwards tendency after the last two years' decreasing phenomenon, the economic and social tensions are presently threatening the states' and governments' capacity to resist protectionist pressures. Nevertheless, the emergent markets are the ones that are in need, at the highest level, of continuing the globalization process in order to attract foreign investments.

Ernst & Young<sup>5</sup> has identified four major challenges that companies are facing as concerns the globalization process, and one of these is represented by the difficulties associated with the development on emergent markets.

- *A new approach that relates to the launching on emergent markets* – previously to the present moment, companies used to finance investments on emergent markets out of the significant profits that they have obtained on the developed markets; due to the fact that their increase tendency has registered a slowing down process, and, also, due to the need to maintain the competition level inside the developed countries by means of dedicated investments, the capital orientation towards the quick increase tendency markets is no longer possible to the same extent. There is more to it namely the costs increase and the competition intensification, both on the side of the multinational companies, and also on the side of the local companies on the emergent markets need a new approach for those who plan to launch themselves on these markets. Such constraints provide, however, the managers with the chance to

<sup>4</sup> <http://www.gandul.info/news/ernst-young-romania-se-mentine-la-mijlocul-clasamentului-intretarile-cele-mai-deschise-catre-globalizare-9169238/> 14.01.2012

<sup>5</sup> *Globalization and new strategies for growth*, The 2011 Globalization Survey, Ernst & Young

develop innovative business models and solutions that would allow them to obtain a gain in a shorter period of time than in the case in which they would follow the standard corporatist model applied on developed markets – see the quoted source.

- *Globalization vs segmentation* – the same approach is no longer consistent with all the markets, therefore the multinational companies are making efforts to set an equilibrium between the global dimension and the local one, their goal being to preserve their relevance for the consumers of each market. This approach can be translated by re-considering the entire operational model inside a mix that would efficiently use the resources and the procurement chains. The operation complexity increases in the context in which agility and dynamism turn into very important factors for them to be able to cope with the market volatility.

- *Public policies acquire more and more importance* – should we take into account the extent to which the great majority of states have suffered lately because of the global economic recession, the political leaders' concord to avoid protectionist measures turns out to be impressive and worth mentioning. Irrespective of the above mentioned facts, 90% of the interviewed executives expect that such measures become a reality if the recession goes even deeper. Surprisingly, it is only a percentage of 15% of the companies that is prepared to cope with such a situation while taking into account this type of evolution of the planned business strategies.

- *Good employees are hard to find* – the companies all over the world assert that they are facing bigger and bigger difficulties in finding candidates to be adequate to the jobs they have available. It is particularly the emergent markets that have to handle such problems, and we are referring here to those emergent markets where the recruiting of specialized human resources and of employees from the middle segment and from the management one is more difficult than on the developed markets. On the other hand, in spite of the fact that they grant more importance to investments on quick development markets, the multinational companies are not in a hurry to temporarily transfer their most skilled employees to such locations since there still is the perception that it is not necessary to make investments in human resources that are similar to those from the mature markets.

## 2.1 Globalization impact

**An unexpected consequence of the globalization process** was represented by the local companies who outran the big concerns. This way, big Western brands, such as Coca-Cola, Nescafé, Nivea or Persil, are facing real competition. Firms from **Brazil, India, China or Russia** adjudicate more and more of the market share of the international firms, since their purpose consists in extending to the Western markets.

Globalization has known a single direction for a long period of time. It seemed that nothing could stop the triumphant march of the Western consumption commodities to the countries with an economy under the development process. On the other hand, as far as their economic progress is concerned, Brazil, Russia, India

and China, the countries from the so-called BRIC group, respectively, wanted to obtain reference trade marks on the segment that is dominated by brands such as: *Coca-Cola*, *Nescafé*, *Gillette*, *Danone* or *Nivea*. A report that was drawn by the consultancy company called *OC & C Strategy Consultants* points to the fact that 50 big world – wide market leaders have lost their position and surrendered it to national organizations that have a more accelerated development rhythm than the their Western models (local companies quickly minimize the quality discrepancy and submit competition prices).

More than that, they came out on the world – wide market, and they offer not only their own products, but they also purchase perspective assets. For example, Inbev, the Brazilian beer producer who is present in Europe with trade marks such as Beck's and Hassroeder, has managed to access to important positions on the old continent's market. As concerns the top of the greatest 50 consumption commodity producers of the world, Inbev occupies the sixth level<sup>6</sup>.

In **China**, the Wahaha and Tingyi drinks producers cause huge problems to the giant Coca-Cola; according to the latest statistics, the Chinese consume more local drinks / spirits than the ones offered by the Westerns. This is a tendency that causes problems to German companies, as well. This is the way in which the Beiersdorf Group has already lost in China a large part of its capital value since their products do no longer sell.

The Henkel Concern has withdrawn, from the market, less known brands that have failed to create an impression on the consumers, and concentrated their forces on traditional brands such as Persil and Schwarzkopf, to be able to cope with the aggressive resistance deployed by the Chinese market.

Under the circumstances, acquisitions turn out to represent a vital strategy; this way, the company called Wahaha has separated from its partner Danone, with whom a joint venture had previously been entered into. And, to be able to take over Wimm-Bill-Dann, the American Concern Pepsico has paid, in 2010, the amount of 3.8 billion \$.

Based on supplementary acquisitions, the Western leaders are attempting to find a way out of the situation in which, in emergent countries, such acquisitions do not register an increase to be similarly quick as their local competitors'. By bought out Wimm-Bill-Dann, Pepsico has valued the Russian company at a price that is 19.8 times higher than its total revenue, debts included. It is almost double if compared to the average per domain.

In 2011, the company called Nestlé made a double acquisition on the Chinese market: they bought 60% of the shares of a foodstuffs company and of a company that produces sweets.

*The acquisition strategy* becomes a more and more important component part for the Western concerns, that either look for *distribution networks for their trade marks*

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<sup>6</sup>[http://www.fin.ro/articol\\_64895/efectul-neasteptat-al-globalizarii-marile-concerne-au-fost-depasite-de-companii-locale.html/17aug.2011](http://www.fin.ro/articol_64895/efectul-neasteptat-al-globalizarii-marile-concerne-au-fost-depasite-de-companii-locale.html/17aug.2011)

(option that is used, for example, by Danone in Russia or by Nescafé, whose coffee differs, from the taste point of view, depending on the region), or *purchase local brands* because they no longer have the means to create a new brand, Wahby says.

In other cases, the brands that have been launched to different places all over the world have been adapted to the respective area tastes (Nestlé sells the Maggi cubes to India even separately piece by piece, and Procter&Gamble offers products that are out of fashion in Europe, at very low prices in other countries).

**Globalization impact at the social level** – it refers to the fact that the state grants more attention to the flow control than to the territorial control since it brings along the movement of activities that are essential for the operation of the states from the territory when related to the global super-territory. This directly influences the states' tax capability to collect, by means of taxes, those funds that are necessary for the disadvantaged population protection, for social insurance, for health, education and any other public interest forms. Generally speaking, the social domain is the one that suffers the most due to globalization. It is not part of the equation that refers to the super-territorial state movements. **From the individual point of view**, the individual's or the group's identity is threatened by the globalization fluidity and rhythm. Nevertheless, there also is the new horizon of an identity to be fed by the reflexivity that the globalization chances provide. This way, knowledge is at an advantage due to the information flow, due to its continuous production and circulation, as well as due to the contemporary civilization's eagerness and thirst for information.

### 3. Forecastings related to the world-wide trade evolution – a premise of globalization

In spite of a 20% decline that was registered during the financial crisis, the world – wide trade shall register a 6.1% increase each year during the period ranging between 2011 and 2030<sup>7</sup> and a 4.4% average rate for the period ranging between 2030-2050. In real terms, commerce shall register an increase, namely from 37 billion Dollars to 287 billion Dollars, in 2050, according to Citigroup's latest report that is quoted by Business Insider.

The report, entitled "*The new emergent corridors of the commercial power*", stipulates that, at the world-wide level, trade shall suffer transformation in accordance with the emergent market development. The Citigroup's analysts estimate that the Chinese state shall become the earth leader before the year of 2015 has come, and that, consequently, the United States of America shall thus lose their leading position.

Based on their currency reserves that exceed 3.6 billion Dollars, and represent 9.5% of the international commerce operations, China shall deprive the United States of America of their world-wide throne in 2015. In 2030, owing 21.3 billion Dollars, the Chinese state shall stand for 17.4% of the globe's trade, and, in 2050, the estimations go to 52.2 billion Dollars and a percentage of 18.2%.

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<sup>7</sup> Source: <http://www.business24.ro/articole/comert+mondial/> 24 oct. 2011

<i>Chr. No.</i>	<i>Country</i>	<i>Commerce value in 2050 -billion dollars-</i>	<i>Percentage from the world-wide commerce in 2050</i>
1.	<b>China</b>	52.2	18.2%
2.	<b>India</b>	25.7	9%
3.	<b>USA</b>	19.1	6.6%
4.	<b>Germany</b>	9.9	3.5%
5.	<b>South Korea</b>	9.7	3.4%
6.	<b>Indonesia</b>	8.8	3.1%
7.	<b>Hong Kong</b>	8.5	2.3%
8.	<b>Japan</b>	7.6	2.7%
9.	<b>Singapore</b>	7.6	2.7%
10.	<b>Great Britain</b>	6.02	2.1%

Source:[http://www.fin.ro/articol\\_68211/which are the countries that shall dominate the world-wide trade in 2050.html](http://www.fin.ro/articol_68211/which_are_the_countries_that_shall_dominatethe_world-wide_trade_in_2050.html)/aug. 2011

As a conclusion, the main reasons that persuade the companies to extend their activities to the global level refer to:

- creation of an environment that would favor the company's development by increasing the volume of sales, of the profit and of the market share (the penetration of these ones on certain external markets);
- capitalization of the competition advantage the companies have available;
- competition removal / elimination by penetration on the competitors' market.

This way, it can be openly asserted that *globalization* makes it possible to obtain advantages based on the capitalization of the synergetic consequences and of economy in particular by way of: focusing of the multinational companies' managers on the most important activities; moving, outside the companies, those activities that are less important from the point of view of the company's competitive advantage, which triggers the obtaining of an optimization environment of the company's activities under the economic efficiency conditions.

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## ACHIEVING SUSTAINABLE DEVELOPMENT: THE ORGANIC AND THE FAIRTRADE INITIATIVES

Sorina Costache\*

### Abstract

*Achieving sustainable development can only be possible if drastic changes are made at most levels. Consumer habits are not the only aspect that needs to change, even though this is pretty hard as it is. People's views on economy, society and politics need to change as well. Sustainable development is a simple concept, at first glance, but in reality it is highly complex. At the present time it is basically impossible to imagine a truly sustainable society since almost everything needs to change, starting with ourselves.*

*A new "dialogue culture" is needed in order to elaborate and implement the objectives of sustainable development, a dialogue between the political and social decision makers and common people, groups and non-profit organizations.*

*The idea of sustainability takes us towards civil participation and, in the end, towards a modernization of democracy, because now it is no longer a question of participation in activities initiated at the political or administrative levels, but a conscious, responsible participation, a "council on common affairs" (Aristotle).*

**Keywords:** sustainable development, sustainable agriculture, fair trade

**JEL Classification:** F10, Q01

### 1. Changes for a sustainable development

Achieving sustainable development can only be possible if drastic changes are made at most levels. Consumer habits are not the only aspect that needs to change, even though this is pretty hard as it is. People's views on economy, society and politics need to change as well. Sustainable development is a simple concept, at first glance, but in reality it is highly complex. At the present time it is basically impossible to imagine a truly sustainable society since almost everything needs to change, starting with ourselves.

Regarding the economy, new management types need to be introduced, which should take into account to a higher extent nature as a production factor. The steps towards a sustainable development need to be agreed upon at the international level if we are to ensure the highest level possible of agreement.

In the social domain, brand new approaches regarding the principle and practice of equitable distribution need to be implemented. Three arguments support this idea: to begin with, since the concept of sustainable development first appeared in the

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political discourse of development, the distribution of development chances in the complex North-South dynamic are the first to be affected. Secondly, one must take into account the extent to which an ecological modernisation of society will be tolerated, which does not only bring about new chances, but very new problems as well. How can one guarantee that life, work and consumption possibilities will be justly distributed? To the last two problems mentioned above, a so-called “intergenerative equitable distribution” must be added. The interests of future generations must be protected when dealing with the distribution of present chances, which implies that society must accept that the present is nothing more than the past of our future, when making decision about its chances.

Another extremely important issue is our disponibility, the society's and the economy's when it comes to accept these changes in our production and consumption behaviour, and why not, our very life style. The most important changes though must occur in the political domain.

Since the very formulation of the sustainable development's objectives, the political system, programmed for a short term, interested in an increase in the standard of living because its chances of reelection depended on it, is highly over-solicited. The implementation of these objectives underlines the growing need for politics to change, since the new emerging values and life styles cannot be regulated at the political or the administrative level. Only through good communication can change take place. Thus, in order to implement the concept of sustainable development a consensus has been reached that acknowledges the necessity of higher citizen participation.

A new “dialogue culture” is needed in order to elaborate and implement the objectives of sustainable development, a dialogue between the political and social decision makers and common people, groups and non-profit organizations.

The sustainable policy needs every single one of us to think without egoism what it is exactly that we can achieve if our personal interests coincided with those of our community. The idea of sustainability takes us towards civil participation and, in the end, towards a modernisation of democracy, because now it is no longer a question of participation in activities initiated at the political or administrative levels, but a conscious, responsible participation, a “council on common affairs” (Aristotle).

“What can I do?” is often the resigned reaction when being confronted with news about climate change or world poverty. But the truth is that we can do something, because sustainability does not only include the global or the local level. The most important level is the individual level, where things begin to change.

## **2. Sustainable Agriculture**

The organic sector is developing at a fast pace in the EU. At farm level the rates of growth are rather impressive: areas have increased by 6.5% per year on average in the EU-27 in the period 2000-2008, animal numbers have increased by the range of 6.1- 22.2% annually in the EU-15 depending on species groups. The organic sector represents a total area of 7.7 mio ha with almost 190 000 holdings in 2008. What is remarkable is that most of the growth of the sector has taken place in the last 15

years, with the area multiplied by eight in the period 1993-2008 and the number of holdings by a factor of 6. Yet absolute levels stay modest since the organic sector still represents only 4.3% of the total UAA of the EU and between 0.5 and 5.0% of total numbers of animal according to the species. Organic holdings would represent a mere 1.4% of all EU holdings (2.8% in the EU-15).

**Table 12. Number of organic producers in the EU**

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Austria	9,713	13,321	18,542	19,433	19,996	20,316	18,768	18,386	18,262	18,576	19,674	20,277	20,321	20,162	19,997	20,102
Belgium	160	169	193	229	317	480	577	624	697	713	671	659	720	774	825	869
Bulgaria					1	1	2	7	11	18	54			158	240	254
Cyprus								15	30	45	45	150	305	300		
Czech Republic	141	187	176	168	203	306	473	563	654	721	832	842	835	963	1,314	1,842
Denmark	640	678	1,050	1,168	1,617	2,228	3,069	3,466	3,525	3,714	3,510	3,186	3,036	2,704	2,841	2,753
Estonia	50	60	119	100	70	76	89	230	369	583	764	810	1,016	1,176	1,220	1,256
Finland	1,599	1,818	2,793	4,452	4,458	4,984	5,197	5,225	4,983	5,171	5,074	4,960	4,631	4,029	4,041	3,991
France	3,231	3,556	3,538	3,854	4,935	6,233	8,068	8,985	10,364	11,288	11,359	11,059	11,402	11,640	11,978	13,298
Germany	5,091	5,806	6,642	7,353	8,184	9,194	10,425	12,740	14,703	15,627	16,478	16,803	17,020	17,557	18,703	19,813
Greece	165	490	598	1,065	2,523	4,183	4,923	5,343	6,710	5,964	6,196	9,282	15,950	23,890	23,791	24,057
Hungary	87	73	108	127	161	330	451	671	784	995	1,290	1,420	1,553	1,600	1,612	1,614
Ireland	238	198	378	666	808	782	972	852	918	919	786	840	957	1,068	1,140	1,185
Italy	4,656	8,597	10,630	17,279	30,701	38,616	47,705	52,706	56,199	51,118	43,928	36,955	44,880	45,115	45,221	44,371
Latvia					39	63	80	219	352							
Lithuania					106	144	171	210	293	393	700	1,178	1,802	2,338	2,823	2,797
Luxembourg	12	12	19	20	23	26	28	31	49	53	59	66	74	72		
Malta								3	20	6	6	1	6	10		
Netherlands	455	512	561	656	746	835	1,004	1,129	1,219	1,560	1,448	1,383	1,377	1,362	1,374	1,402
Poland	180	246	263	238	324	417	555	1,419	1,787	1,977	2,298	3,760	7,193	9,187	12,000	15,206
Portugal	73	234	349	240	278	542	740	745	938	1,093	1,145	1,379	1,577	1,606	1,949	2,775
Romania								72	109	143	207			3,367	3,193	2,775
Slovenia	20	25	30	35	40	41	343	620	883	1,150	1,421	1,555	1,724	1,953	2,063	2,142
Slovakia	40	41	34	45	48	81	89	88	82	80	88	117	195	285	280	350
Spain	753	909	1,042	2,161	3,526	7,392	11,812	13,394	15,007	16,521	17,028	16,013	15,261	16,645	18,096	21,255
Sweden	1,507	1,695	2,473	2,741	2,833	3,027	3,540	3,626	5,288	3,665	3,562	4,726	3,019	2,893	2,948	3,886
United Kingdom	655	715	828	865	1,026	1,462	2,538	3,563	4,049	4,104	4,012	4,321	4,263	4,639	5,506	5,383
EU-12							3,878	5,221	6,461	8,242				25,412	29,700	32,700
EU-15	28,948	38,746	49,606	62,200	81,971	100,280	119,996	130,905	143,521	140,086	134,918	131,889	144,187	154,326	158,400	164,200
EU-27							134,783	148,742	148,547	143,180				179,738	187,500	196,900

Sources: Eurostats data (white cells, 2008 provisional)  
 \*Registered producers only for Lithuania (2003-2008), Romania (2006-2008)

Figure 1. Number of organic producers in the EU.  
 Source: Eurostat.

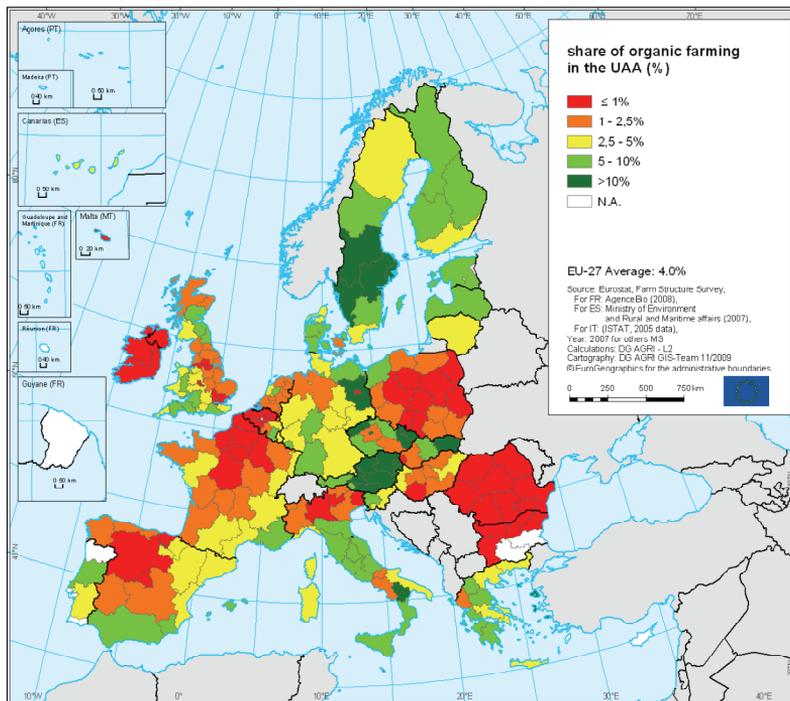


Figure 2. Share of organic farming in the UAA (%).  
 Source: Eurostat.

### 3. Sustainable Consumption

**Table 8.** *Significance of the organic sector in food consumption (household food purchases in the EU<sup>15</sup>, 2006 or 2007)*

		Organic food expenses mio €	Share in total food expenses %	Organic food expense per capita €
Belgium	2007	283	1,3	26,6
Bulgaria	2006	1	0,0	0,1
Czech Republic	2007	52	0,5	5,0
Denmark	2006	434	3,8	79,8
Germany	2007	5.300	3,7	64,4
Greece	2006	60	0,2	5,4
Spain	2007	200	0,2	4,5
France	2007	2.069	1,4	32,4
Italy	2007	1.387	1,0	21,4
Cyprus	2006	2	0,1	1,9
Luxembourg	2006	41	3,7	86,4
Hungary	2006	20	0,2	2,0
Netherlands	2007	519	1,8	31,7
Austria	2007	739	4,8	89,0
Poland	2006	50	0,1	1,3
Portugal	2006	70	0,4	6,6
Romania	2006	2	0,0	0,1
Slovenia	2006	4	0,2	2,0
Finland	2006	65	0,6	12,3
Sweden	2006	379	2,2	41,7
United Kingdom	2007	2.835	2,7	41,9
EU-15		14.381	1,9	35,9

Sources: Eurostat for household food expenditures and population  
IFOAM (2008) or ORA (2008) for organic food market  
Italy: ACNielsen, Assobio and FederBio

Figure 3. Significance of the organic sector in food consumption (household food purchases in the EU, 2006 or 2007) Source: Eurostat.

One part of the dynamics of development of the sector can be attributed to the pulling effect of a robust demand for food organic products. Another part appears to be linked to the support which is provided to it through the Common Agricultural Policy of the EU and especially through dedicated Rural Development measures (agri-environment payments). Regarding the first Pillar of the CAP, it is necessary to stress that CAP reforms have gradually put the two types of farming on equal footing since the early 1990s.

The economic recession of 2009 may have affected strongly the growth of demand for organic products, although data are available only for few Member States. Whereas organic food consumption has been affected strongly in the United Kingdom (decline by 13.6%), it would have shown better resilience in Germany, France and Italy where it remained stable (Germany) or continued growing (France and Italy). Overall, organic food consumption appears robust and is likely to resume (or accelerate) growth when the economic crisis will be terminated. The organic

sector is now extending beyond a mere "niche agriculture" and reaching a certain critical mass.

#### 4. Fairtrade

Fairtrade is a complex trading partnership which seeks greater equity in international trade by creating closer relationships between the consumers and the producers from the geopolitical North and South. From its shy beginnings as an alternative means of selling craftwork in charity shops, Fairtrade products have become highly accessible to the consumers in Europe and the United States.

While sales remain fairly low in global terms, the growth of the Fairtrade market has been phenomenal: in 2008, global Fairtrade sales reached 2.9 billion euros, growing at a rate of 22% per annum. In 2009, this percentage reached 37% and by 2010 4.36 billion euros were spent on Fairtrade products. The Fairtrade market occupies between 0.5-5% of all sales in Europe and the United States. By 2010, over 1.5 million disadvantaged producers were directly benefiting from Fairtrade, while an additional 5 million were enjoying the fruits of infrastructure and development projects financed through the Fairtrade system.



Figure 4. Total Fairtrade sales (metric tonnes).

Source: [www.fairtrade.net](http://www.fairtrade.net), annual reports.

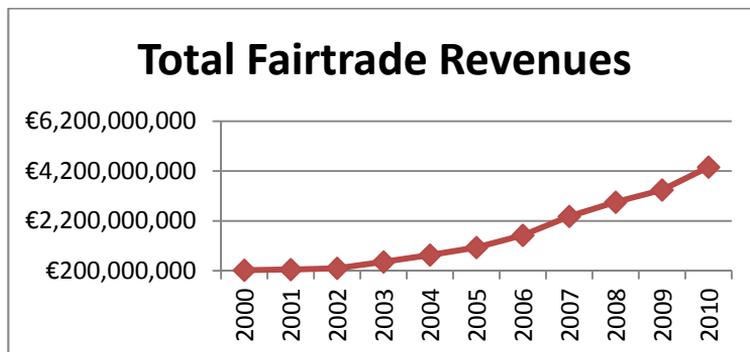


Figure 5. Total Fairtrade revenues (euros).

Source: [www.fairtrade.net](http://www.fairtrade.net), annual reports.

In order to make these possible, Fairtrade has incorporated a dynamic series of products, standards and certification systems, new actors, new political and organizing alliances and more and more complex governmental arrangements.

The principles of Fairtrade are very simple: the farmers receive for their products fair prices, a function of international market prices. Thus responsible business can be conducted, while those living and working in developing countries can have food security and a decent standard of living in the long run. Consumer of Fairtrade products receive in return tasty products of good quality. These products are exported in a direct and controlled manner by the developing countries mostly to the developed ones, bearing the FAIRTRADE certification that guarantees its origins. Consumers that decide to purchase Fairtrade products are socially responsible, contributing personally and actively to a more equitable world.

Fairtrade revolves around efficient cooperation which is guaranteed to have a positive effect on all those that are involved in it. These participants are the following:

- The farmers and their families, since through Fairtrade they can ensure their very existence and plan their future. The farmers' cooperatives receive in return a premium for social and ecological development, which they use in order to get access to potable water, basic medicine and education etc. Most of the times only through the Fairtrade system was the leap towards ecological farming made possible.

- The workers on the plantations, because Fairtrade makes it possible for them to enjoy decent standards of work and living, a relationship with their employers lawfully regulated by work contracts which include minimum wages, legal work standards, labor protection in order to avoid poisoning with dangerous chemicals used in agriculture, the banishment of labor exploitation and providing a minimum access to medicine, all of which are not the norm in developing countries of the South.

- The consumers, which can thus enjoy qualitative goods produced by natural cultivation. Fairtrade guarantees the origin and controls the exports of FAIRTRADE goods, which come from very limited territorial structures. These products are permanently cared for, this being the main reason for their high quality. Consumers, apart from having access to the good quality products, also act responsibly when choosing a Fairtrade product over another, non-Fairtrade one. If only ten consumers from developed countries opted for FAIRTRADE coffee, a whole family from the South could achieve food security and thus survive.

- Nature, because FAIRTRADE products are traditionally cultivated, respecting the principles of sustainable development: by mixing cultures with other plants for personal use, by planting trees that offer shade, by reducing the use of chemical substances in agriculture, through the use of natural fertilizers and reducing soil erosion. In addition, residues are avoided or ecologically treated. The rain forest and natural water supplies are thus protected. All these efforts have positive effects

on our ecosystems, being of great importance to those of us living in the developed world.

- The children living in the southern hemisphere, because child labor exploitation is illegal, while their families' revenues benefit from the Fairtrade system. A certain part of the FAIRTRADE premiums is used for the construction of new schools for these very children.

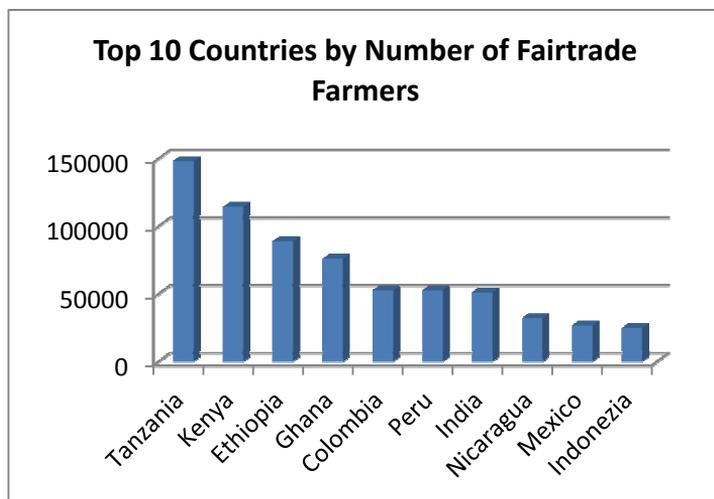


Figure 6. Top 10 countries by number of Fairtrade farmers.  
Source: [www.fairtrade.net](http://www.fairtrade.net), annual reports.

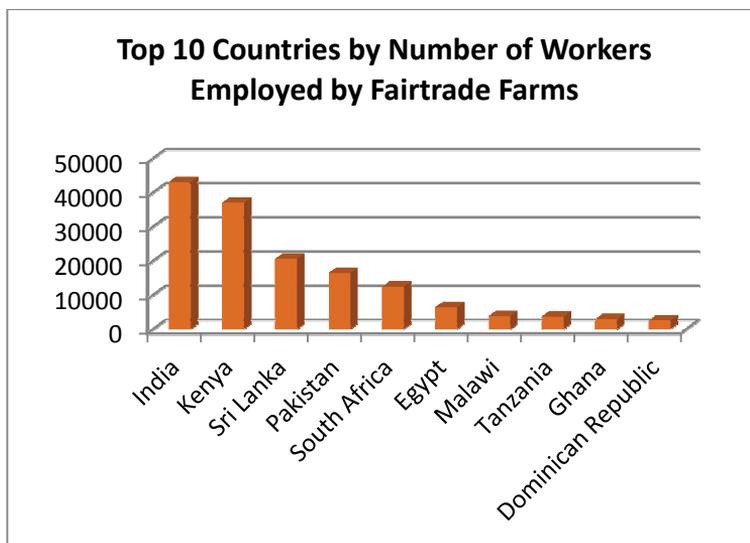


Figure 7. Top 10 countries by number of workers employed by Fairtrade farms.  
Source: [www.fairtrade.net](http://www.fairtrade.net), annual reports.

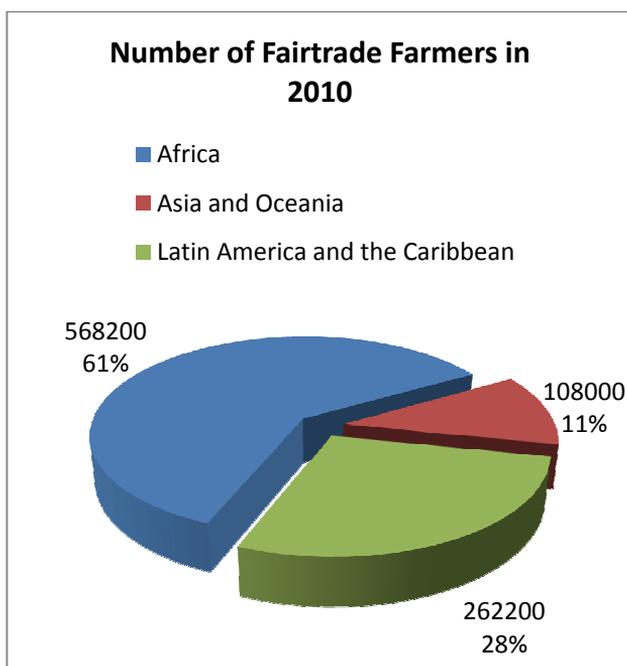


Figure 8. Number of Fairtrade farmers in 2010.  
Source: [www.fairtrade.net](http://www.fairtrade.net), annual reports.

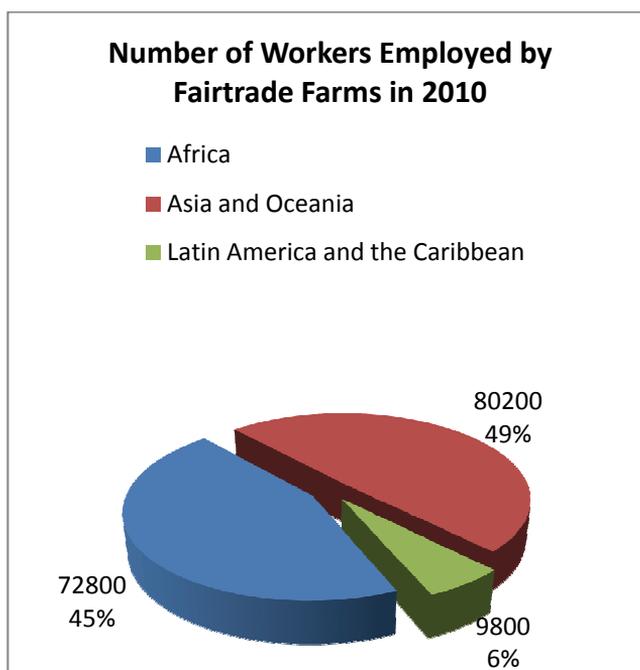


Figure 9. Number of workers employed by Fairtrade farms in 2010.  
Source: [www.fairtrade.net](http://www.fairtrade.net), annual reports.

There are several raw materials that have the FAIRTRADE logo: coffee, tea, chocolate, honey, bananas, sugar and rice. In the following section we will exemplify the case of coffee in order to better explain how the above principles are put into practice.

The fall of coffee prices on the international market, beginning with the year of 1999, threw into poverty hundreds of thousands of people, especially in the South. The most afflicted were farmers and their families, who experienced a bitter life crisis. A way out of this crisis was presented by Fairtrade. Farmers receive almost double for their FAIRTRADE coffee than the international price level. FAIRTRADE prices are not estimated solely according to the international prices, but also in accordance to the purchase power of the farmers, enabling them to have a decent standard of living. In 1997, a quintal of coffee (45,4 kg) was priced at 189 USD, while in 2003 the price plummeted to approximately 64 USD. The minimum price for FAIRTRADE coffee is 121 USD per quintal. If the international price surpassed the minimum imposed price of FAIRTRADE coffee, this will then change in accordance. In addition to this, 5 USD will be added to each FAIRTRADE quintal of coffee, a sum that is destined for sustainable development projects implemented by the coffee producers. This premium is usually used for social or ecological development projects, such as building a new school or teaching farmers new, ecological farming practices.

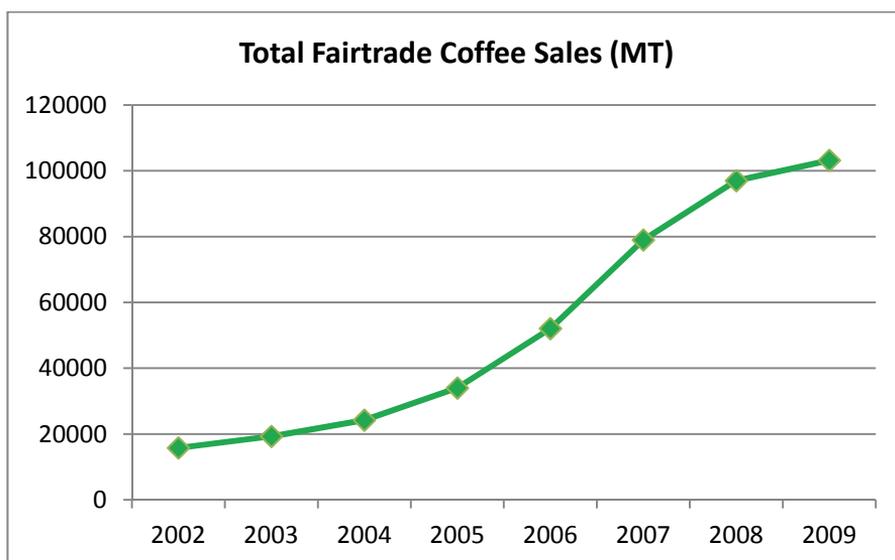


Figure 10. Total Fairtrade coffee sales (metric tonnes).

Source: [www.fairtrade.net](http://www.fairtrade.net), annual reports.

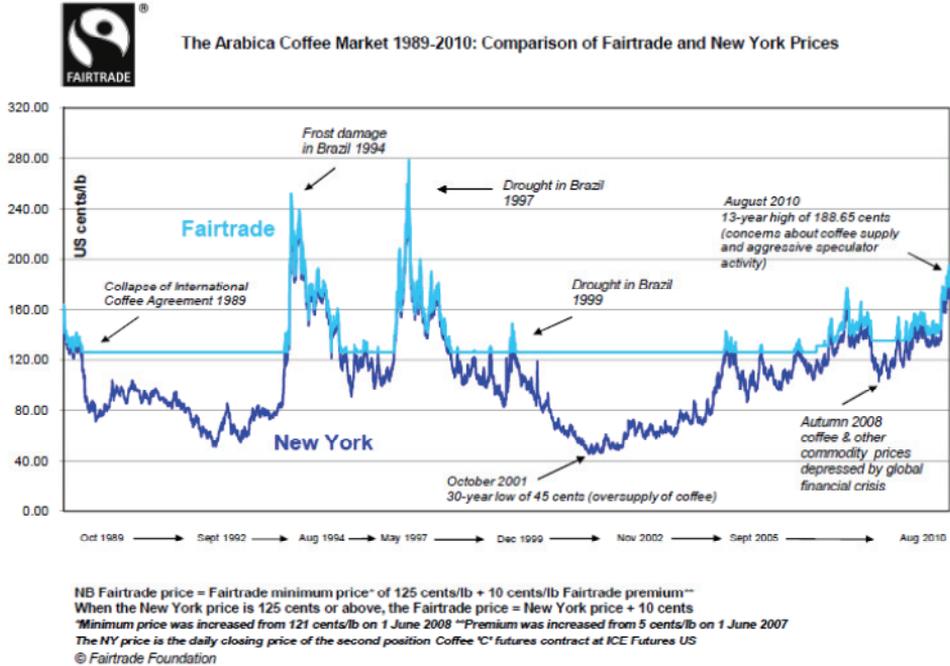


Figure 11. The Arabica coffee market 1989-2010: Comparison of Fairtrade and New York Prices.  
 Source: Fairtrade Foundation.

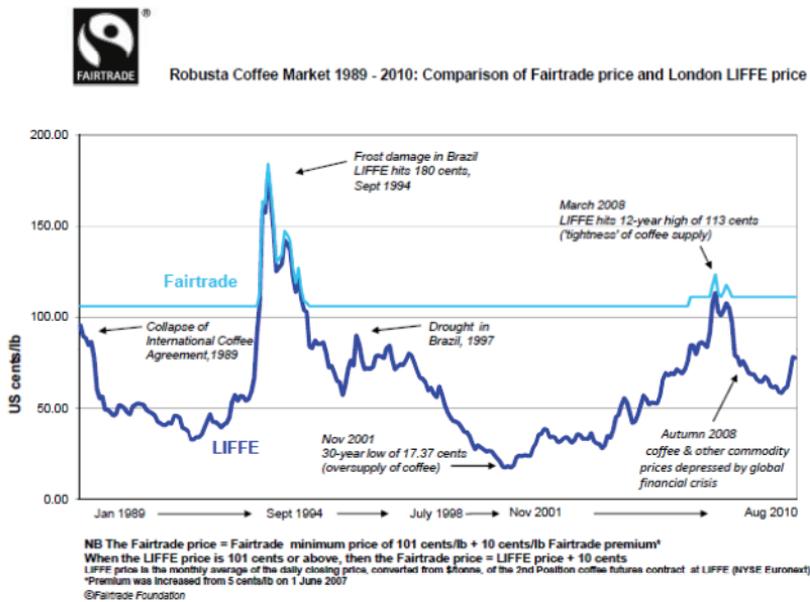


Figure 12. The Robusta coffee market 1989-2010: Comparison of Fairtrade and London LIFFE price.  
 Source: Fairtrade Foundation.

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