ROMANIAN ECONOMIC AND BUSINESS REVIEW

Statement of Purpose

The *Romanian Economic and Business Review* (ISSN 1842-2497) intends to provide a forum for academic analysis of the economic phenomena and institutions affecting the world economy in general, and Romania, in particular. *REBE* examines a wide variety of phenomena related to economic growth and business development and attempts to publish high quality research focusing on the role of institutions and public policy, within both a national and international context. *REBE* encourages cross-disciplinary research work of Romanian and foreign scholars.

Indexed and/or *Abstracted* in:
EBSCO; EconLit; Index Copernicus; RePec

Author Information

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

Manuscripts should not exceed 8,000 words and must conform to the REBE's style requirements, which are guided by The Chicago Manual of Style (14th edition). All submissions must include a cover sheet explaining the scope of the article, and including the authors' names and affiliations, telephone and e-mail address. The text should be single-spaced. References are cited with parentheses using the author/date/page style. *Example*: (Marcus, 2005, p. 74). Authors should use footnotes, not endnotes to add only short comments. Bibliography should include only references cited in the text, in the alphabetical order of authors. An abstract of no more than 200 words should be included.

Submission of a paper implies that the paper will not be submitted for publication to another journal unless rejected by the REBE editor or withdrawn by the author, and that it is an original work. All submissions should be sent to the journal Editor:

Dr. Bogdan Glăvan
Romanian-American University
Bulevardul Expoziţiei nr. 1
Bucureşti
E-mail: bogdan.n.glavan@gmail.com

Subscription rates:
Institutions - $100/year
Individuals - $30/year

ROMANIAN ECONOMIC AND BUSINESS REVIEW

FALL 2012 VOLUME 7 NUMBER 3

PRO UNIVERSITARIA
BUCUREŞTI 2012

ISSN 1842 – 2497

ROMANIAN ECONOMIC AND BUSINESS REVIEW

CONTENTS

REFLECTIONS

TESTING AUSTRIAN BUSINESS CYCLE THEORY? A SECOND REJOINDER TO ANDREW YOUNG

Robert P. Murphy,
William Barnett II
and Walter E. Block*

Abstract

Young (2005) attempted to test Austrian Business Cycle Theory (ABCT). Murphy, Barnett and Block (hence, MBB, 2009) criticized Young (2005) on the ground that his model failed on its own terms. MBB (2009) found significantly different parameter estimates using the same data as did Young (2005). Beyond these serious objections, there is the more fundamental difficulty that Young's approach, even if conducted flawlessly, would still be an improper "test" of ABCT. Young (2010) is a response to MBB (2009). The present paper is a rejoinder to Young (2010). We argue that Young (2010) was not an adequate response to MBB (2009) for the following reasons: tba

Key Words: Austrian Business Cycle Theory; testing economic theories; illustrating economic theories

JEL Category: E32

1. Introduction

We warmly welcome the publication of Young (2010). At this time of economic travail,[1] the more we as a society learn about the causes of recessions and depressions, the better off we shall all be. In our view, ABCT is our last best hope for an understanding of this phenomenon. Unhappily, major attention has been given to Keynesianism, Monetarism and Real Business Cycle theory as explanations; the Austrian contribution, the only correct one in our perspective, has all but been ignored.[2] In focusing on ABCT, Young (2010) does a real service to the economics

* Robert P. Murphy is Adjunct Scholar at the Mises Institute. E-mail: rmurphy@pacificresearch.org
William Barnett II is Professor of Economics and Chase Bank Distinguished Professor of International Business, Joseph A. Butt, S.J., College of Business, Loyola University New Orleans. E-mail: wbarnett@loyno.edu
Walter Block is Harold E. Wirth Eminent Scholar Endowed Chair and Professor of Economics College of Business Administration,
Loyola University New Orleans. E-mail: wblock@loyno.edu

[1] We write in the recessionary fall of 2010, the opinion of the National Bureau of Economic Research to the contrary (http://blogs.wsj.com/economics/2010/09/20/nber-recession-ended-in-june-2009/) notwithstanding.

[2] Woods (2009) is an important exception to this generalization.

profession, particularly to the Austrian school, and makes an important contribution to society in general. However, when it comes to the specifics, we find ourselves, still, not reconciled to his specific analysis. Let us consider, in detail, where the present authors depart from Young (2010).

Young (2010, 2) starts out on the wrong foot. He states: "MBB are content, ultimately, to dismiss such efforts … (econometric analysis of ABCT) … entirely: 'it is a mistake to think that one can [with regression analysis] illustrate, much less "test," ABCT (MBB, 2009, p. 77)." But this is not at *all* what we say. Well, we do indeed mention what Young (2010, 2) attributes to us, but he cuts us off midway, thus radically changing the meaning of our statement. The full quote is as follows (we now emphasize in italics what Young leaves out): "*Thus* it is a mistake to think that one can much less test, ABCT *with a model, such as Young's, that attempts to capture resource (specifically labor) reallocations with a single-equation for each industry; this is simply inadequate to the task*." Young does not so much as place ellipsis (…)[3] after "ABCT" in his quote from BMM (2009), which would indicate that he had truncated what we had said. In other words, Young reports in effect that we, BMM, oppose econometric regression analysis *per se* as a way to shed light on ABCT, whereas in point of fact we were only voicing objection, in that quote, to *his*, Young's (2005), manner of proceeding in this regard. Had he quoted us accurately, even leaving off the crucial last part of our sentence, he would have done so as follows: "… it is a mistake to think that one can much less test, ABCT…," thus indicating that he had left out some of what we had written. That he did not we find highly problematic. It is as if author A said "I favor Hitler dead and buried," and author B attributed the following to author A: "I favor Hitler." At the very least, author A should have had the decency to use ellipsis, to indicate that he was truncating the statement of B: "I favor Hitler…" Then, disinterested readers would have wondered just what was deleted from A's quote of B. But, as it stands, A is in effect claiming that B supported this Nazi leader. That is not at all kosher.[4]

The present paper will follow the very reasonable outline established by Young (2010). Thus, section 2 shall discuss internal criticisms of Young (2005). Section 3 will address itself to a comparison of his and our empirical estimates. We again follow Young's (2010) lead in devoting our section 4 to the issue of "testing" versus "illustrating" economic theories. The burden of section 5 will be a discussion of the importance of quantitative work for ABCT. And, as does Young (2010), we, too, will conclude in section 6.

---

[3] http://en.wikipedia.org/wiki/Ellipsis. This oversight of Young's constitutes definitive evidence that he studied grammar with nuns (0) not rabbis (1).

[4] We do not claim, of course, that Young's (2010) deviation from appropriate conventions of quotation is as egregious as the Hitler example. We use this latter example not to explain the severity of the misinterpretation, but, merely, its format.

2. Internal criticisms of Young (2005)

Here, Young (2010, 3) reminds us of his "20 two-digit SIC industries representing US manufacturing," without taking note of the criticisms of his employment of this data we mentioned in MBB (2009, 78, 79, footnotes deleted): "Young's attempt to empirically test ABCT fails on several grounds. First, all of Young's chosen industries come from the manufacturing sector. Yet this is the single *worst* sector to pick. As Young's own Hayekian diagrams indicate (p. 277), central bank-induced expansions have the smallest effect in the middle of the triangle.… Finally consider the 20 industries used in the study (see appendix). The first few, (20-23) may be categorized as consumer goods. Young speaks in terms of a focus on *manufacturing*, but then lists these four clearly non-manufacturing categories. These four (20-23) are represented most reasonably, in Young's figure 1, as 'retailing' or 'later stages.' The remainder are almost certainly to be characterized as either producers' goods, or consumer durables. Thus, they would most properly be placed in his 'earlier stages.' While some of these 20 can possibly be associated, specifically, with various of the stages depicted in his figures, others of them clearly transcend two or more or even all of these stages. They cannot all be considered members of the 'manufacturing' stages in his figure 1."[5] If we are to achieve real disagreement with Young, it simply will not do for him to ignore our criticisms of his previous work.[6]

2.1 Lags

States Young (2010, 4) "My assumption is that it takes one quarter for monetary policy changes to affect businesses' plans." This, to say the very least, is *entirely* incompatible with ABCT. A key point of this analysis is that not only are not "business plans" affected one quarter after monetary policy kicks in, but that for intents and purposes, they are *never* affected. That is, the business community *mis*allocates resources in a manner that would not occur in the absence of our Fed

---

[5] Young in his footnote 1 states; "MBB make the perplexing claim that they "did not see a constant term in the model' (p.77). Fixed effects (i.e., the δ's [sic]) are precisely cross-sectional unit-specific constants." He is correct; however, this does not alter any of our criticisms of his paper.

[6] We find it more than passing curious that one more than one occasion Young (2010) upbraids us not for errors we make (although to be sure, he does that too) but for sins of omission (other than not being responsive to his challenges leveled at us). For example Young (2010, 4) "find(s) it peculiar that MBB simply did not check whether or not using contemporaneous (absolute value) funds rate changes makes a statistically or economically significant difference." Young (2010, 5, fn omitted) chides us as follows: "To my knowledge, non-manufacturing industry-level reallocation data are not currently available. Given this, MBB neither offer nor pursue alternatives." Young (2010, 7) takes us to task because "MBB (do) not offer positive contributions for econometric analyses of ABCT." Young (2010, 9) is unhappy that "MBB's (2009) criticisms are … entirely negative; they lack any positive contributions or suggestions for future contributions. Our response is, first, there is such a thing as the division of labor; it is operational in economics research as it is in all other things. Second, a purely negative contribution is still a contribution.

with its monetary policy. No, wait, this is too quick. Matters are a bit more complicated than that. There is a bifurcation. The foregoing statement is correct, only, with regard to the bust phase of the ABC. Young's assessment for the boom phase, for all anyone knows, may be entirely correct. That is, it might well be true that businessmen misallocate resources with a lag of one quarter after monetary policy occurs. However, for recession or depression, it often takes not months, nor quarters, nor, even, years, for business plans to be affected, but *decades*. Consider Rothbard (1963) as an example. In his ABCT analysis, the setting for the depression of the 1930s emanating not a month, quarter, or a year before that time, but, rather, in the early and mid 1920s, roughly a *decade* before that time

Milton Friedman (1960, 87) wrote: "In fact, however, there is much evidence that monetary changes have their effect only after a considerable lag and over a long period and that the lag is rather variable."

2.2 Manufacturing as center of triangle

Focus, again, on Young's (2005) two figures. The first one divides the Austrian triangle into five parts, with "manufacturing" right in the middle. Although it is not crystal clear from the second figure where a change of interest rate is depicted, the dashed and solid hypotenuses of the triangle could well cross right dab smack in the middle of the triangle, right in the territory marked "manufacturing" in figure one. If so, we would then expect *zero* job reallocation, consequent upon an artificial interest rate alteration, that is, nada, zip, none at all, in manufacturing. So, even according to Young's own depiction of ABCT, there is no need for *any* job reallocation in manufacturing. And yet, a large part of his denigration of this theory is that there is only modest job reallocation in this sector of the economy. Young, here, is hoist by his own petard. This is a point we make in MBB (2005, 78, footnote deleted): "Young's attempt to empirically test ABCT fails on several grounds. First, all of Young's chosen industries come from the manufacturing sector. Yet this is the single *worst* sector to pick. As Young's own Hayekian diagrams indicate (p. 277), central bank-induced expansions have the smallest effect in the middle of the triangle."

How does Young (2010, 5) attempt to deflect this criticism? He states: "… MBB's characterization of the triangle is too literal. Figures 1 and 2 of (Young 2005) (sic) are best interpreted as a Hayekian triangle for a *given, hypothetical good*. In the real world manufacturing occurs at various stages of production, e.g., drills are manufactured to extract iron that is manufactured into assembly line that are then used to manufacture cars."

There are problems here, numerous and serious. First, if what Young (2010) now says is true, how, then, to explain his (Young, 2005) figure 1, where manufacturing, all by itself, occupies the central position and is clearly separated from the other four stages of production, labeled, respectively, "mining," "refining," "distributing" and "retailing." Is Young (2005) correct in depicting figure 2 as he did, or is Young (2010) on the mark in terms of rejecting this self same diagram? This author, certainly, cannot be allowed to have it both ways.

Second, Young (2010) cannot be permitted, either, to make things up as he goes along. If he is relying upon the triangle to illustrate ABCT, at least in his publication of 2005, as he clearly is, then he is logically compelled to interpret it "literally," precisely as it has been interpreted by a long line of Austrian economists[7] who, as in Young (2005), have done just that. If he wants to reject ABCT, well and good. But, for the purposes of Young (2005), he is *accepting* it, at least arguendo. If so, then let him "dance the whole dance" and not jettison the triangle of ABCT at the slightest hint of trouble. He who lives by the triangle must die by the triangle, too.

Third, the traditional Austrian who still supports the triangle[8] has a quick and easy response to Young's (2010) defense. He could say, Who *cares* where manufacturing takes place in the so-called real world? We are now in the world of the triangle! And, in the world or model of the triangle,[9] the drills that are manufactured to extract iron do not count as *manufacturing*; rather, they count as *mining*; the drills that are manufactured in the assembly line do not count as *manufacturing*; rather, they count as *refining*; *only* the drills that are manufactured to make cars count as manufacturing. Similarly, the drills that are manufactured to help with distribution or retailing count in the latter two categories of Young's (2005) figure 2, and drills that are found in households count as *consumption*.

It is the same with a pick up truck. When it is *used* in a mine, it is part and parcel of the mining section of Young's (2005) figure 2. When it is *used* in refining, it is part and parcel of the refining section of Young's (2005) figure 2. When it is *used* in manufacturing, it is part and parcel of the manufacturing section of Young's (2005) figure 2. When it is *used* in distributing, it is part and parcel of the distributing section of Young's (2005) figure 2. When it is *used* in retailing, it is part and parcel of the retailing section of Young's (2005) figure 2. And when it is *used* in consumption, it is part and parcel of the consumer section of Young's (2005) figure 2. In poetry, it may well be that a "rose is a rose is a rose." But in economics, it is *not* true that a truck, or a drill, is a truck or drill, is a truck or drill. No, when we're talking ABCT triangles, these items are to be categorized in the manner they are *used* not on the basis of what they *look* like, objectively. This is an aspect of yet another element of Austrian economics that seems to have passed by Young (2010): subjectivism.[10]

---

[7] See on this Hayek (1931), Garrison (1994, 2001, 2004), Garrison and Bellante (1988); numerous other economists who interpret the triangle "literally" are cited in Barnett and Block (2006).

[8] In spite of the vicious and devastating attack that has been launched against it by Barnett and Block (2006).

[9] As a neo classical economist, Young should surely appreciate the functioning of a *model*.

[10] States Hayek (1979, 52): "And it is probably no exaggeration to say that every important advance in economic theory during the last hundred years was a further step in the consistent application of subjectivism." Also, see the following on this issue: Barnett (1989), Block (1988), Buchanan and Thirlby (1981), Buchanan (1969, 1979), Butos and Koppl (1997), Cordato (1989), DiLorenzo (1990), Garrison (1985), Gunning (1990), Kirzner (1986), Mises (1998), Rizzo (1979A, 1980), Rothbard (1979, 1997).

Another difficulty in this section arises when Young (2010, 5) states: "To my knowledge, non-manufacturing industry-level reallocation data are not currently available. Given this, MBB neither offer nor pursue alternatives." True, in MBB (2009) we failed in this task. However, we now make up for this lacuna, and offer some advice: if you wish to do empirical work, and cannot find data that is absolutely crucial to your analysis, do not substitute clearly inappropriate data for the statistics that are unavailable. Instead, focus your empirical analysis on different areas, where there is accurate and relevant data to be had.

3. Empirical estimates

Young (2010, 6) starts this section of his paper off as follows: "MBB claim that the parameter estimates reported in Young (2005) are erroneous. My own replication arrives at the original estimates. However, I will not argue that point here. Instead I will *take for granted* that MBB's new estimates are correct and ask a follow up question: *Do they lead to meaningfully different conclusions that those arrived at by Young (2005)?*

This really will not do. Milton Friedman famously said: "That methodological approach [Austrianism], I think, has very negative influences. . . [It] tends to make people intolerant. If you and I are both praxeologists, and we disagree about whether some proposition or statement is correct, how do we resolve that disagreement? We can yell, we can argue, we can try to find a logical flaw in one another's thing (sic), but in the end we have no way to resolve it except by fighting, by saying you're wrong and I'm right."[11] Presumably, the same difficulty would not arise with regard to empirical calculations. But, here, apparently, it *has*. What to do? Fight? Of course not. Rather, we should check the figures, again and again, until all parties to the dispute agree, at least, to the arithmetic of the matter. If this cannot be done, then unbiased outsiders must be brought in as mediators. We (MBB, 2009) have acted precisely in this way by mobilizing a third party to do just that. Young (2010) has done no such thing, contenting himself with running the calculation again entirely on his own. "My own replication…" This is insufficient. Young should have also asked a third party to run the regressions. The editor and referees of *Economics Letters*, the publisher of Young (2005) were remiss in their duty to see that his statistical calculations were performed accurately. This applies even more so to the editor and referees of the *Review of Austrian Economics*, the publisher of Young (2010); they were even more remiss in their duty to see that this mere statistical calculation was made to the satisfaction of all parties, once this had been called into question by MBB (2009). It is simply a dereliction of duty on Young's (2010) part to avoid the entire issue, and instead "take for granted that MBB's new estimates are correct…"[12]

Young (2010, 6) makes much of the fact that ours, and his, estimates "are not *economically*" different. But that is beside the point. We are now trying to determine

[11] Cited in Long, 2006, 19; Ebenstein, 2001, 273.

[12] Note the use of ellipsis here.

who is the accurate empiricist, and who is not. If there is no statistically significant difference between the two calculations this means, only, in our view, that Young's (2005) error was not a large one. However, just because (if that is indeed the case) we arrive at economically similar conclusions as does Young (2005), while using *his* data and method, does not by one whit justify the entire procedure, as Young (2010) implicitly would have it. To conclude this would be to ignore all of our MMB (2009) criticisms of Young (2005), apart from his calculational deficiencies.[13]

Young (2010, 6) states: "Quantitatively, the results are different *but not at all in an economically meaningful way* as MBB suggest." This, too, will not do. When we criticize Young (2005, 2010), we offer chapter and verse. That is, cites, quotes. If our dialogue is to continue, it would be far preferable if that author would return the favor, and not content himself with a naked "… as MBB suggest," without any citational clothing.[14]

4. Testing versus illustrating economic theories

We must also take issue with Young (2010) in his rejection of our claim that economic theories are praxeological, that is, apodictically certain. He states (2010, 7): "… I fundamentally disagree with MBB's characterization of economic theories as 'equivalent to mathematical or geometrical claims, such as [. . .] the assertion that the three angles of a triangle sum to 180 degrees' (p. 76) … MBB's example belies their criticism. They offer a quantitative statement regarding the numerical sum of the angles. However, economic theories are nearly always apodictically true only as *qualitative* statements. For example, theory tells us that demand curves slope downward – period; theory tells us basically nothing about the numerical value of a demand curve's slope (in absolute of elasticity terms)."[15]

Unfortunately, we cannot see our way clear to agreeing with Young (2010) on these matters. In MBB (2009) we used the fact that triangles sum to 180 degrees not to illustrate a praxeological law, but, rather, to give an instance of a non economic apodictically certain truth. Since Young (2010) appears interested in *economic* praxeological laws that are qualitative, not quantitative, here are a few, provided by Hoppe (1995):

[13] We are very grateful to Young (2010, 6) for pointing out to us that it is an error to "take statistical significance to be the same as economic significance." Frankly, this is a point of which we were entirely unaware, and we are delighted that he has condescended to instruct us on such an issue.

[14] Young (2010, 6) takes a swipe at "some Austrian economists' aversion to econometric practice." But, surely, there are *some* mainstream economists with the same aversion, for example, those who specialize in the history of economic thought, in ethics and economics, in religion and economics, etc. Is there to be no appreciation of specialization and the division of labor in intellectual pursuits? In any case, Young (2010, section 5) himself supplies evidence attesting to the fact that this aversion does not apply to all Austrian economists.

[15] The ellipsis in brackets […] are Young's. The other ellipsis in the above quote are those of the present authors. We must now admit error: Young has indeed heard of ellipsis, and knows full well how to use them, contrary to our previous criticism of him. His use of them, however, is unhappily highly selective.

"Whenever two people A and B engage in a voluntary exchange, they must both expect to profit from it. And they must have reverse preference orders for the goods and services exchanged so that A values what he receives from B more highly than what he gives to him, and B must evaluate the same things the other way around.

"Or consider this: Whenever an exchange is not voluntary but coerced, one party profits at the expense of the other.

"Or the law of marginal utility: Whenever the supply of a good increases by one additional unit, provided each unit is regarded as of equal serviceability by a person, the value attached to this unit must decrease. For this additional unit can only be employed as a means for the attainment of a goal that is considered less valuable than the least valued goal satisfied by a unit of such good if the supply were one unit shorter.

"Or take the Ricardian law of association: Of two producers, if A is more productive in the production of two types of goods than is B, they can still engage in a mutually beneficial division of labor. This is because overall physical productivity is higher if A specializes in producing one good which he can produce most efficiently, rather than both A and B producing both goods separately and autonomously.

"Or as another example: Whenever minimum wage laws are enforced that require wages to be higher than existing market wages, involuntary unemployment will result.

"Or as a final example: Whenever the quantity of money is increased while the demand for money to be held as cash reserve on hand is unchanged, the purchasing power of money will fall."[16]

Young (2010, 7) is also in error when he claims that "theory tells us that demand curves slope downward – period." *Austrian* theory does indeed tell us this, but, this is not true of neoclassical theory, which includes the possibility of a Giffen good, yielding an upward, not a down ward, sloping demand curve.[17] This imprecision of language on the part of Young (2010) is unfortunate.

5. The importance of quantitative work for ABCT

Young (2010, 7) "cannot help but conclude that (MBB) would be content if such (econometric analyses of ABCT) were not forthcoming in future research." We are of two minds on this matter. On the one hand, we *welcome* research of the sort provided by Young (2005). It has the very positive effect of focusing professional attention on ABCT, which has been shamefully ignored by the profession as a whole, to say nothing of pundits, commentators, the mass media etc. Indeed, we start off MBB (2009, 73) by characterizing Young (2005) as "a very welcome development…"

---

[16] For further references on this matter see: Block, 1973, 1980, 1999; Batemarco, 1985; Fox, 1992; Hoppe, 1989, 1991, 1992, 1995; Hulsmann, 1999; Mises, 1969, 1998; Polleit, 2008; Rizzo, 1979B; Rothbard, 1951, 1957, 1971, 1973, 1976, 1997a, 1997b, 1997c, 1997d, 1993; Selgin, 1988.

[17] For the argument that demand curves always and ever slope in a downward direction, e.g., that the Giffen good is incompatible with Austrian economic analysis, see Salerno and Klein (tba).

We also end MBB (2009, 81) on this very same note: "We welcome Young's econometric test of the Austrian Business Cycle Theory which in our view is one of Mises (sic) and Hayek's tragically underappreciated contributions to the profession."

On the other hand, and, yes, there is another side to this story, all of human action, up to and including economics research, has alternative costs. There is a question in our view as to whether the benefits of this sort of research more than offsets is costs, in terms of alternatives foregone. All throughout this present paper[18] we have had occasion to doubt the benefits of it, not merely as Young has approached the problem, but in general.

But this objection is "merely" a substantive one. In our estimation, the benefits of unleashing econometric regression analysis upon ABCT far outweighs their costs in terms of alternatives foregone. Garrison (2001, 2005) has done yeoman work in focusing the attention of economists on ABCT. Young's contributions, in our view, pile onto this effort, and are thus very salutary ones.

6. Conclusion

So far, we have confined ourselves to criticizing what Young (2010) did say in his article. It is now time to reflect, in contrast, on what he did *not* include in his paper. Specifically, he ignored several of our very telling points against his previous publication in this series, Young (2005). Since this author seems intent upon continuing this dialogue with us (one which we very much welcome), we implore him, in the next go-round, to explicitly consider criticisms we (MBB, 2009) made of his paper of 2005, which he ignored in his response to us of 2010. What are these?

a. The interest rate, or, rather, rate*s*, are only *part* of the story. Missing from Young's (2005, 2010) account is any appreciation of the fact that *credit* conditions would be relevant to interest, and thus, also, to the ABCT.

b. Footnote 34 of our paper MBB (2009) reads as follows: "Young (2005) quite properly utilizes the Hayekian triangle to illustrate ABCT. This has been the well established practice since 1931 within the Austrian tradition. However, Barnett and Block (2006) have severely criticized this procedure."[19]

3. Young (2005, p.2) places quotes around the phrase "Austrian school." We object to this practice in MBB (2009, footnote 10), which states: "We are puzzled by the quote marks around "Austrian school." It would appear to imply that there is no such school of thought as the Austrian. But this is surely mistaken. See on this Rockwell, 1995." Young would hardly place quotation marks around Chicago School, or Virginia School, or Public Choice School. Why the denigrating treatment for the Austrian School?

4. Young's (2005) use of the relatively riskless federal funds rate

---

[18] For more on this see below, particularly concerning the originary rate of interest. The issue of proper lags, too, seems to us to be an insurmountable obstacle to empirical research on this matter.

[19] Due to editorial oversight, none of our footnotes appear in MBB 2009. However, we did send Young an electronic copy of our paper, which included all of this material.

5. Young's (2005) time series encompasses not one but several business cycles, and parts of others.

6. Young's (2005) practice of taking the absolute value

7. Young's (2005) assumption that each stage of production will have the same, or at least proportional, number of laborers attached to it.

Amazingly, Young (2010) doesn't reply to *any* of these criticisms we offer in MBB (2005). We thus pass like ships in the night, not really speaking about the same things. This is akin to the "parallel play" that children of 2-3 years old engage in. They are too young to play with each other. Instead, they sit side by side with each other, and each one focuses, only, on his own toys. If discussion of these issues that divide us and Young is to bear serious fruit, that author must engage us more closely.

While we are on the topic of Young's oversights, here are some more. Young (2005) relies heavily on changes of interest rates in his model to generate the ABC. No, that is too gentle a way of putting matters. More accurately, interest rate changes are one of the foundations of his entire argument. No, that too, puts the matter too weakly. Let us try this: the entire lynchpin of Young's model rests on governmental changes in the interest rate. But, this is not quite an adequate portrayal of ABCT. Strictly speaking, and, how else should we speak if we are to get to the truth in this rather complicated issue, what is required is not a Fed induced change in the interest rate, but, rather, one that constitutes a *deviation* between the originary rate of interest, and whatever level it is at which the Fed pegs the actual interest rate. This, it must be admitted, is difficult to corral empirically, since the originary rate of interest is a contrary to fact conditional: it is the rate of interest that *would* have prevailed if there were no government interference with the interest rate; that is, if we were in a pure free market setting. However, we are not. Thus, it is extremely difficult, practically impossible, to get a handle on the relevant rate of interest. Suppose the originary rate of interest would have been 5%, and the fed rate is 3%.[20] Then, the relevant rate of interest called for in the empirical model would be 2%, not the 3% that would be utilized by Young.

Suppose, mirible ductu, that the Fed gets it *right*: it moves the interest rate not only in the direction of where it would have been, based upon the pure time preferences of the populace, but hits the nail precisely on the head and sets it exactly as it would have prevailed under pure free enterprise. Then, according to ABCT, there would be no shift, whatsoever, in the triangle. Thus, Young is simply not justified in assuming that Fed rate he employs misallocates resources, and calls for, eventually, a shift in employment. The ABC is set off only when the Fed sets the interest rate *incorrectly*; that is, differently than would have otherwise prevailed under free market conditions. But Young has no warrant for his implicit claim that in the period 1972:2 to 1993:4 they never, not once, hit the target on the bull's eye in this regard.

[20] We know, we know, that is way too high a rate of interest for the modern era; but, this is just a numerical example to clarify the point being made in the text. A little poetic license is surely justified here. It's getting late, and I'm a bit giddy.

References

Barnett II, William. 1989. "Subjective Cost Revisited," *Review of Austrian Economics*, Vol. 3, pp. 137-138

Barnett, William II and Walter Block. 2006. "On Hayekian Triangles." *Procesos De Mercado: Revista Europea De Economia Politica*; Vol. III, No. 2, Fall, pp. 39-141; http://tinyurl.com/2zkvj7; http://mises.org/journals/scholar/block18.pdf

Batemarco, Robert. 1985. "Positive Economics and Praxeology: The Clash of Prediction and Explanation," *Atlantic Economic Journal*, July, 13(2), pp. 31-27.

Block, Walter. 1973. "A Comment on 'The Extraordinary Claim of Praxeology' by Professor Gutierrez," *Theory and Decision*, June, 3(4), pp.377-387.

Block, Walter. 1980. "On Robert Nozick's 'On Austrian Methodology'," *Inquiry*, Vol. 23, No. 4, Fall, pp. 397-444

Block, Walter. 1988. "Comment on Leland Yeager on Subjectivism," *Review of Austrian Economics*, Vol. II, pp 199-208; http://www.mises.org/journals/rae/pdf/r2_12.pdf

Block, Walter. 1999. "Austrian Theorizing: Recalling the Foundations," *Quarterly Journal of Austrian Economics,* Vol. 2, No. 4, Winter, pp. 21-39.

Buchanan, James M. 1969. *Cost and Choice: An Inquiry into Economic Theory*, Chicago: Markham

Buchanan, James M. 1979. "The General Implications of Subjectivism in Economics," in *What Should Economists Do?*, Indianapolis: Liberty Press

Buchanan, James M. and G.F. Thirlby. 1981. *L.S.E. Essays on Cost*, New York: New York University Press.

Butos, William and Roger Koppl. 1997. "The varieties of subjectivism: Keynes, Hayek on expectations." *History of Political Economy*, 29 (2), pp. 327-59.

Cordato, Roy E. 1989. "Subjective Value, Time Passage, and the Economics of Harmful Effects," *Hamline Law Review*, Vol. 12, No. 2, Spring, pp.229-244.

DiLorenzo, Thomas J. 1990. "The Subjectivist Roots of James Buchanan's Economics," *The Review of Austrian Economics*, Vol. 4, pp. 180-195

Ebenstein, Alan. 2001. *Friedrich Hayek: A Biography*, New York: Palgrave

Friedman, Milton. 1960. *A Program for Monetary Stability*. New York, N.Y.: Fordham University Press.

Fox, Glenn. 1992. "The Pricing of Environmental Goods: A Praxeological Critique of Contingent Valuation," *Cultural Dynamics*, Vol. V, No. 3, pp. 245-259

Garrison, Roger W. 2005. "The Austrian School." *Modern Macroeconomics: Its Origins, Development and Current State*. Snowdon, Brian and Howard R. Vane, eds. Cheltenham, U.K.: Edward Elgar, pp. 474-516.

Garrison, Roger W. 1994."Hayekian Triangles and Beyond," in Jack Birner and Rudy van Zijp, eds., Hayek, Coordination and Evolution: His Legacy in Philosophy, Politics, Economics, and the History of Ideas. London: Routledge, pp. 109-125.

Garrison, Roger W. 2001. *Time and Money: The Macroeconomics of Capital Structure*. London: Routledge

Garrison, Roger W. 2004. “Overconsumption and Forced Saving in the Mises-Hayek Theory of the Business Cycle” *History of Political Economy* vol. 36, no. 2 (summer)

Garrison, Roger W. and Don Bellante. 1988. "Phillips Curves and Hayekian Triangles: Two Perspectives on Monetary Dynamics," History of Political Economy, vol. 20,

Garrison, Roger. 1985. "A Subjectivist Theory of a Capital Using Economy," in O'Driscoll, Gerald P. and Rizzo, Mario, *The Economics of Time and Ignorance*, Oxford: Basil Blackwell, 1985

Gunning, J. Patrick. 1990. *The New Subjectivist Revolution: An Elucidation and Extension of Ludwig von Mises's Contribution to Economic Theory*, Savage, MD: Rowan and Littlefield.

Hayek, Friedrich A. 1931. *Prices and Production*, London: Routledge.

Hayek, Friedrich A. 1979. *The Counter-Revolution of Science*, 2nd ed. Indianapolis, IN: LibertyPress

Hoppe, Hans-Hermann. 1989. "In Defense of Extreme Rationalism: Thoughts on Donald McClosky's *The Rhetoric of Economics*," *Review of Austrian Economics*, 3, pp. 179-214.

Hoppe, Hans-Hermann. 1991. "Austrian Rationalism in the Age of the Decline of Positivism," *Journal des Economistes et des Etudes Humaines*, Vol.2, No. 2; reprinted as

Hoppe, Hans-Hermann. 1992. "On Praxeology and the Praxeological Foundation of Epistemology and Ethics," Herbener, J., ed., *The Meaning of Ludwig von Mises*, Boston: Dordrecht

Hoppe, Hans-Hermann. 1994. "Austrian Rationalism in the Age of the Decline of Positivism," in *Austrian Economics: Perspectives on the Past and Prospects for the Future*, Vol. 17, Richard M. Ebeling, ed., Hillsdale, MI: Hillsdale College Press, pp. 59-96.

Hoppe, Hans-Hermann. 1995. *Economic Science and the Austrian Method.* Auburn, AL: The Ludwig von Mises Institute; http://www.mises.org/esandtam/pes1.asp

Hoppe, Hans-Hermann. 2006. "Austrian Rationalism in the Age of the Decline of Positivism" in *The Economics and Ethics of Private Property: Studies in Political Economy and Philosophy*, 2nd, ed., pp. 347-379; Auburn AL: The Mises Institute

Hülsmann, Jörg Guido. 1999. “Economic Science and Neoclassicism.” *Quarterly Journal of Austrian Economics*, Vol. 2 Num. 4, pp. 1-20; http://www.mises.org/journals/qjae/pdf/qjae2_4_1.pdf

Kirzner, Israel, ed. 1986. *Subjectivism, Intelligibility and Economic Understanding*, New York: New York University Press

Long, Roderick T. 2006. “Realism and abstraction in economics: Aristotle and Mises versus Friedman.” *The Quarterly Journal of Austrian Economics* Vol. 9, No. 3, Fall, pp. 3–23; http://www.mises.org/journals/qjae/pdf/qjae9_3_1.pdf

Mises, Ludwig von. [1949] 1998. *Human Action,* Scholars’ Edition. Auburn: Mises Institute. http://www.mises.org/humanaction.asp

Mises, Ludwig von. 1969. *Theory and History: An Interpretation of Social and Economic Evolution*. New Rochelle, NY: Arlington House.

Mises, Ludwig von. 1998 [1949]. *Human Action: The Scholar's Edition,* Auburn, Ala.: The Mises Institute; http://www.mises.org/humanaction.asp

Murphy, Robert P., William Barnett II and Walter E. Block. 2009. "Testing Austrian Business Cycle Theory? A Rejoinder to Andrew T. Young" *Journal of Business and Economic Perspectives*, Vol. XXXV, No. 2, Fall/Winter, pp. 73-86

no. 2 (Summer), pp. 207-234.

Polleit, Thorsten. 2008. "Mises's Apriorism Against Relativism in Economics." April 25; http://blog.mises.org/archives/008051.asp

Rizzo, Mario J. 1979A. "Uncertainty, Subjectivity, and the Economic Analysis of Law", in Mario J. Rizzo (ed.), *Time, Uncertainty, and Disequilibrium*, Lexington, MA: Lexington Books, pp. 71-90Rizzo, Mario J. 1980. "The Mirage of Efficiency," *Hofstra Law Review*, Vol. 8, pp. 641-658

Rizzo, Mario. 1979B. "Praxeology and Econometrics: A Critique of Positivist Economics," *New Directions in Austrian Economics*, Louis Spadaro, ed., Kansas City: Sheed Andrews and McMeel, pp. 40-56

Rockwell, Llewellyn H., Jr. 1995. *Why Austrian Economics Matters.* Auburn AL: The Mises Institute; http://www.mises.org/etexts/why_ae.asp

Rothbard, M. 1963. *America's Great Depression.* Kansas City: Sheed Andrews. http://www.mises.org/rothbard/agd.pdf

Rothbard, Murray N. 1951. "Praxeology: Reply to Mr. Schuller." *American Economic Review*, December.

Rothbard, Murray N. 1957. "In Defense of Extreme Apriorism," *Southern Economic Journal*, January, 23(1), pp. 314-320.

Rothbard, Murray N. 1971. "Lange, Mises and Praxeology: The Retreat from Marxism." *Toward Liberty*. Vol. II, Menlo Park, CA: Institute for Humane Studies, pp. 307-321. Reprinted in *The Logic of Action One: Method, Money, and the Austrian School.* Glos, UK: Edward Elgar Publishing Ltd., 1997, pp. 384-396.

Rothbard, Murray N. 1973. "Praxeology and the Method of Economics," *Phenomenology and the Social Sciences*, M. Natanson, ed., Evanston, IL: Northwestern University Press, vol. 2, p. 311 342; and *Austrian Economics: A Reader* Vol. 18, Richard M. Ebeling, ed., Hillsdale, MI.: Hillsdale College Press, 1991, pp. 55-91.

Rothbard, Murray N. 1976. "Praxeology: The Methodology of Austrian Economics," in *The Foundations of Modern Austrian Economics*. Edwin G. Dolan, ed., Kansas City: Sheed and Ward, pp. 19-39. http://www.econlib.org/library/NPDBooks/Dolan/dlnFMAContents.html

Rothbard, Murray N. 1979. "Comment: The Myth of Efficiency", in Mario J. Rizzo (ed.), *Time, Uncertainty, and Disequilibrium*, Lexington, MA: Lexington Books: pp. 91-96

Rothbard, Murray N. 1993. *Man, Economy, and State*, 2 vols., Auburn, AL: Ludwig von Mises Institute

Rothbard, Murray N. 1997. "Toward a Reconstruction of Utility and Welfare Economics," in *The Logic of Action: Method, Money and the Austrian School*, Vol. I, Cheltenham, UK: Edward Elgar, pp. 211-254

Rothbard, Murray N. 1997a. "Praxeology as the Method of the Social Sciences," in *The Logic of Action One*. Murray N. Rothbard, ed., UK: Edward Elgar Publishing Limited, pp.28-57.

Rothbard, Murray N. 1997b. "Praxeology: The Methodology of Austrian Economics," in *The Logic of Action One*. Murray N. Rothbard, ed., UK: Edward Elgar Publishing Limited, pp.58-77.

Rothbard, Murray N. 1997c. "Praxeology, Value Judgments, and Public Policy," in *The Logic of Action One*. Murray N. Rothbard, ed., UK: Edward Elgar Publishing Limited, pp.78-99.

Rothbard, Murray N. 1997d. "In Defense of 'Extreme Apriorism'," in *The Logic of Action One*. Murray N. Rothbard, ed., UK: Edward Elgar Publishing Limited, pp.100-108.

Salerno and Klein (tba).

Selgin, George A. 1988. "Praxeology and Understanding: An Analysis of the Controversy in Austrian Economics," *Review of Austrian Economics*, (2), pp. 19-58; and *Praxeology and Understanding*, Auburn, AL: Ludwig von Mises Institute, 1990.

Woods, Thomas E. Jr. 2009. *Meltdown: A Free-Market Look at Why the Stock Market Collapsed, the Economy Tanked, and Government Bailouts Will Make Things Worse.* Washington D.C.: Regnery Publishing

Young, Andrew T. 2005. “Reallocating labor to initiate changes in capital structures: Hayek revisited.” *Economics Letters*. Vol. 89, No. 3, pp. 275-282

Young, Andrew T. 2011. “Illustrating the importance of Austrian business cycle theory: A reply to Murphy, Barnett and Block: A call for quantitative study.” *Review of Austrian Economics*. 24 (1): 19-28.

COMMERCIAL COMPANIES' ADAPTING TO THE NEW ORGANIZATIONAL CONTEXT REQUESTS. CASE STUDY: S.C. „BAF CONSULTANCY" S.R.L.

Anca Cruceru*

Abstract

Starting from the research carried out at the national level, research that has particularly pointed to the present status of the Small and Average Size Organizations (IMMs for short) as concerns the project management under the circumstances of the new organizational context, there has also been carried out a research at the level of one organization with the purpose to state the following issues: the need of this one to adapt to the new world-wide trends; the measures that have been adopted by this company in view of adapting to this context; and, also, the applicability of the project management "mutations" in relationship with an information – based economy, society, organization.

Key words: „mutations", new organizational context, strategy, project, research

JEL Classification: C10, D80, L25, L80, M10, O22, O30

Introduction

Starting from the research at the national level[1], research that has underlined, on the one hand, the status of the IMMs as concerns the project management under the conditions of the new organizational context, and, on the other hand, the applicability of the project management "mutations" that have been established by the undersigned based on an analysis of the theoretical aspects that are related to this issue, there has been realized a research at the level of one IMM that was identified to belong to that category of organizations that have not adapted, at least not yet, to the information – based economy, society, organization and management, but that, however, needed that change if it intended to continue to be present on the market.

The need and capacity of the commercial company that is made reference to along this material as „BAF Consultancy" S.R.L., namely to adapt to the new organizational context requests

Presentation of the commercial company called „BAF Consultancy" S.R.L.:

S.C. „BAF Consultancy" S.R.L. was set up in 2000, and it is a sole proprietor limited liability company.

* Anca Cruceru is Assistant Professor at the Romanian American University in Bucharest. E-mail: cruceruanca@yahoo.com

[1] Anca Cruceru, 2011

The name of the commercial company comes from 5 Romanian key words: (Business, Accounting, Financial domain, Fiscal and Consultancy domain.

The company's domain of activity, according to the 2009 CAEN Code, is "7022 – Consultancy Activities for Business and Management". At the same time, the company can also develop accounting, auditing and consultancy activities related to the financial and fiscal domain.

To achieve its activity object, S.C. „BAF Consultancy" S.R.L. has set an organizational structure of the hierarchical – functional type that contains 4 organizational sub-divisions: Consultancy Department, Marketing Department, Human Resources Department and Financial – Accounting Department.

Research purpose:

This research activity has been carried out with the purpose to establish the need of the commercial company referred to as "BAF Consultancy" S.R.L. to adapt to the new organizational context requests should it intend to maintain its position on the market.

Research objectives:

- To carry out a valuation process, by the employees, of the company's economic and financial situation;
- To carry out an appraisal process, by the employees, of the activities that are being developed within the four departments: consultancy, marketing, human resources and financial - accounting;
- To make a presentation of the company's marketing system;
- To establish the company's need to change while taking into account the improvement of the economic, financial and managerial performances;
- To be aware of concepts such as: information – based economy, society, organization and management;
- To establish the company's capacity to adapt to the new type of organization;
- To be aware of the company's capability to apply and information – based management;
- To be aware of the usefulness of the principle to create competitive advantages by way of measuring and valuating the company's intellectual capital.

Research relevance:

The purpose of this research was to assist in certifying the possibility to put into practice the project management "mutations"[2] as per the new organizational context. Under such a context, the research relevance consists in adapting the commercial company called "BAF Consultancy" S.R.L. to the information – based organization, and, thus, this one shall turn into a pure organization by way of "projects".

Research development:

[2] Anca Cruceru, 2011

This research was carried out at the beginning of 2010, and it was of a descriptive – exploratory type. Within this research, the quantity and quality measurement of the information was achieved by means of nominal, ordinal and interval scales. The research was based on the dissemination and analysis of a questionnaire that contained 40 close and open questions; dichotomy, trichotomy and multiple answer questions; introductive, passing, knowledge, classification questions; and filter questions.

The research sample was made up of 23 persons – all of them employees of the commercial company named "BAF Consultancy" S.R.L.

The questionnaires were disseminated to the employees by means of the company's intranet network.

All the employees got back with answers to the disseminated questionnaires.

Research conclusions:

The analysis of the information that has been collected based on the answers received from the company – disseminated questionnaires, has made it possible to draw the below conclusions of this research:

- The company's economic – financial situation is satisfactory;
- Women detain a majority weight within the company;
- Within the company, the employees' average age exceeds the age of 30 years;
- Within the company, the majority weight is detained by employees whose profession lists at "economists";
- Within the company, each position implies that the employee take over many jobs and assume many liabilities;
- The activity that the Consultancy Department develops ranges at: "acceptable / satisfactory";
- The Marketing department is characterized by a good quality activity;
- The number of persons who consider that the activity developed within the Human Resources Department is acceptable / satisfactory is equal to the number of persons who consider that the developed activity is very good;
- Within the Financial – Accounting Department the activity that is being performed is listed at "acceptable / satisfactory";
- The company benefits by an average level of the management;
- Within the company, the decision-making process is well substantiated;
- The company's information system is insufficiently dimensioned;
- As concerns the management methods, the company's management uses as follows: the management by way of targets, the analysis – diagnostic method, the meeting method, the board picture and the participative management;
- The company's organizational structure is rigid;
- The content of the long, average and short term targets to be established at the level of the company is available to and known by almost all the company's employees;

- The global strategy is not substantiated and issued at the level of the company;
- The content of the company's chart and of the Organization and Operation Regulations is not thoroughly known to the company's employees;
- The content of the job obligation files is known by almost all the company's employees;
- The are minor discrepancies between the job obligation files and the real requests of these ones;
- Some of the employees consider that the job obligation files are not complete (absence of individual targets);
- The employees state that the requests listed inside their job obligation files do not exceed the normal responsibilities of the occupied positions;
- The employees consider that certain departments should be closed down (the Marketing Department, the Human Resources Department), or that the activities carried out by certain departments should be concentrated in only one department (the Consultancy Department should be united with the Marketing department, the Consultancy Department should be united with the Financial – Accounting Department);
- Some employees suggest that there should be set up new departments (the Financial – Accounting – Personnel Department; the Marketing – Consultancy Department; all the Departments should be re-named and re-organized since the organizational structure type has not been efficiently selected so as to be able to carry out the set object of activity);
- The great majority of the employees reckon that the company has an optimum number of employees;
- A significant part of the employees appreciate that there is no organizational culture at the company's level;
- The great majority of the employees are of the opinion that the company should perform several modifications in order to be able to improve its economic – financial and managerial performances, and more particularly, by means of re-designing and re-considering, either partially or totally, the activities it develops;
- The employees are not completely aware of the content of concepts such as: economy, society, organization and information - based management;
- The majority of employees consider that, to be able to improve their performances, the company should adapt to the new world – wide trends by means of implementing, by way of "projects", the new organizational structure that is pure, and by means of implementing a management by way of projects;
- Almost all the employees consider that the company has the information that is necessary for the implementation of an information – based management;

- Almost all the employees appreciate that the company could build up its own competitive advantages if it measured and valuated its intellectual capital, while capitalizing its employees' knowledge, the information the company benefits by, as well as the knowledge and information of its stakeholders.

The conclusions of this research have pointed to the fact that the company is ready to adapt to the information – based organization, but, however, that, at the same time, the company needs to carry out this process if it really intends to maintain its existence on the market, and more than that, if it wishes to continue developing its activity.

Adaptation of the commercial company called "BAF Consultancy" S.R.L. to the new organizational context requests

Further to having analyzed both the internal and external environment of the commercial company "BAF Consultancy" S.R.L., the below listed SWOT matrix has been issued:

Table 1. SWOT matrix for S.C. "BAF Consultancy" S.R.L.

In favour / Strong points	Against / Weak points
- The personnel is preponderantly of a young age; - The personnel has high education and is well trained from the professional point of view; - The personnel has experience in the consultancy and accounting domains; - The personnel recruiting and selection procedures are efficient; - The wage earners are well motivated; - The company develops mentorship activities for its employees; - The company assures social protection for the developed activities; - The provided services are satisfactorily promoted; - The prices that are charged fore the provided services are average level; - The provided services are high quality; - Client loyalty principle; - The internal consultancy agents	- Decrease of the number of employees; - Existence of lack of stability with reference to the personnel and to the labour jobs; - The failure to organize specialty / training courses for the employees; - Minimum number of possibilities to advance hierarchically; - The existence of work under stress conditions during certain periods of time; - The existence of rare situations of the failure to observe the contract terms and conditions; - Outsourcing for some services that are no longer provided by the company; - The Consultancy Department develops a partially effective activity; - The company has a narrow-minded point of view regarding the way to provide services (management by way of targets); - The company chart has been incorrectly conceived;

provide a diversified range of services; - To apply team – work in order to provide quality services; - Possibility to provide, simultaneously, several services; - The attendance of a legal adviser on the date of signing all the contracts whose subject matter is to provide services; - The target category system is correlated, to a great extent, with the company's process component parts; - The decision-making system is relatively efficient; - The company benefits by a good technical endowment; - The existence of an intranet network within the company; - The total of the borne expenses has decreased in 2009 compared to 2008 and 2007; - To register, within normal limits, the global indebtedness rate and the global indebtedness degree for the year of 2009 if compared to the year of 2008; - The company has a solid organizational culture;	- The job files have a deficit content; - The company has not developed the Organization and Operation Regulations; - Some departments have not been adequately made an entry of; - Some organizational sub-divisions have been incorrectly selected to develop the activity; - The absence of realistic strategies and policies; - The principles to conceive and operate the organizational structure and the informational sub-system have not been fully observed; - The company uses a reduced number of information applications; - Not all the information has been capitalized as concerns the decision-making processes; - There have been registered some deficiencies at the information system level; - The quality parameters of the information sets and decisions have not been fully abided by; - The failure to coherently collect, record and send the information sets; - The appearance of methodological deficiencies; - The use, to a small extent, of the modern methodological instrument; - The presence of a high degree of rigidity at the managerial level; - The decrease of the company's profitability in the year of 2009 if compared to the year of 2008; - The decrease of the company's turn-over for 2009 if compared to 2008 and 2007; - The decrease of the labour productivity for 2009 if compared to 2008; - The decrease of the company's global

	economic performance for 2009 if compared to 2008; - The company failed to pay its debts in due time as far as the year of 2009 is concerned if compared to the years of 2008 and 2007; - The company has a weak self – sufficiency for 2009 if compared to 2008; - The depreciation of the company's possibility to carry out settlement of accounts with its clients for the year of 2009 if compared to the year of 2008; - The decrease of the own-detained capital efficiency; - The company has a reduced possibility to turn its circulating assets into liquid funds that are indispensable for the satisfaction of all the short-term liabilities; - The decrease of the company's profitability as concerns the year of 2009 if compared to the year of 2008; - The lack of communication and of certain explanations with reference to the elements – component parts of the organizational culture.
Opportunities	**Threats**
- Proliferation of the information – based management; - Modification of the consumers' behaviour; - Branching out of the services; - Qualified labour force; - Building up partnerships with other companies from the consultancy domain; - Access to projects to be financed from European funds.	- inflation; - intensified competition; - political instability; - upwards evolution of the unemployed rate; - economic crisis; - increase of the prices charged by the suppliers; - duties and taxes; - quality / optimum price rate that the competition offers; - the appearance of competition as concerns certain services to be provided; - limiting down the client segment.

Based on the SWOT analysis, there have been established certain strategic – tactical recommendations, which, have made it possible, on the one hand, to eliminate the weak points or to reduce the amplitude of their consequences, while taking into account the identified opportunities and threats, and, on the other hand, to facilitate the company's adapting process to the information – based organization, particularly in order to be able to survive on a saturated market to be characterized by a fierce competition, as well as by a decreasing request rate (due to the economic crisis).

Henceforth, the strategic – tactical recommendations have listed as below:

1. „Realistic policy and strategy issuing;
2. Organizational sub – system re-designing;
3. Making adequate recordings for the company's personnel;
4. Re-designing the information sub-system;
5. Adapting the decision – making sub–system to the new re-designed sub-systems (from the organization and information point of view);
6. Improvement of the methodological sub-system;
7. Adapting the organizational culture to the managerial changes;
8. Outsourcing for several of the company's services;
9. Consolidation of the relationships with other companies that represent the competition as far as the domain of consultancy at the financial – accounting, fiscal and management level is concerned"[3].

The foregoing recommendations have been included in the global consolidation strategy (maintaining / stability strategy), and we refer here to the average – term strategy (2010 – 2012) of the company.

The recommendations have been applied to the organization by means of the project that is known under the name of "Drawing, implementation and control – valuation of the global strategy at S.C. "BAF Consultancy" S.R.L.", particularly in order to render evident the usefulness of the projects under the new organizational context.

The conclusions that come as a result of having partially run this project have been as follows (according to the intermediary report dated the 28-th of February 2011):

- The partial fulfillment of the set targets – due to the incorrect anticipation of the economic crisis amplitude;
- Setting a contingency plan that would allow the commercial company "BAF Consultancy" S.R.L. to benefit by the advantages of adapting to the information – based organization under the present economic crisis context;
- S.C. "BAF Consultancy" S.R.L. has successfully adapted to the information – based organization;
- The implementation, within S.C. "BAF Consultancy" S.R.L., of an information – based management;

[3] Anca Cruceru, 2011

- The application of the project management "mutations" under the context of the new world – wide trends, trends that relate to economic, society, organization and information - based management issues.

Conclusion

This way, this research, that is completed by a SWOT analysis and by the formulation of a strategy to be implemented within the organization by means of running a project, has made it possible to become aware of the fact that should a company wish to survive in the context of the new earth-wide trends, such a company shall adapt to the changes that the new environment imposes by adopting the characteristics that have in view the new requests, and also, by applying the "mutations" of the project management. At the same time, before realizing this, the organization should analyze its capacity to be able to adapt to the new organizational context.

References

Anca Cruceru. 2012. *"Present Status Of Small And Medium Size Organizations (IMMs) As Reported To The Project Management Under The Conditions Of The New Organizational Context"*, Volume 7, Number 1, Spring, pp. 24-32

Anca Cruceru. 2012.*"Project Management Adapting To The New World Trends"*, Volume 6, Number 1, Spring, pp. 86-96

Anca Cruceru. 2011. *"Perfecționarea managementului de proiect în organizația bazată pe cunoștințe"*, Editura Universitară, ISBN 978-606-591-274-8

Anca Cruceru. 2011. Teza de doctorat *„Perfecționarea managementului de proiect în organizația bazată pe cunoștințe"*, Cota 132424, Sala Victor Slăvescu, Academia de Studii Economice, București, (link accesat la data de 26.01.2012)

http://www.biblioteca.ase.ro/catalog/detalii.php?c=2&q=Cruceru%2C%20Anca&st=s&tp1=0&tp2=0&tp3=0&tp4=0&tp5=0&tp6=0&tp7=0&ct=132424

Andrei Novak. 2001. *"Statistică. Teorie, aplicații, exerciții"*, Editura Sylvi, București, ISBN 973-8258-50-2.

EUROPEAN UNION TOWARDS 2020 AND BEYOND: A NEW "ZEITGEIST" AND THE CHALLENGES AHEAD

Florin Bonciu*

Abstract

The economic crisis has had a serious impact in many but not all economies of the world. As for the European Union, the Greek crisis and the Eurozone crisis have led to a structural and conceptual crisis. This impact generated a lot of commentaries, analyses and proposals of solutions. Most of the discussions have remained either technical, looking for solutions within a paradigm that is no longer valid, or looking towards the past and asking a lot of "what ifs" that are not anyway of particular relevance. This paper took a different perspective, that of a change in the "spirit of times", a change in the way people understand reality and the way they picture their expectations. In our opinion European Union lost, to a large extent, the contact with the perception of times and expectations of the people from the 27 member states. European Union leaders look for technical solutions but the 500 million people look for a vision and a motivation, a sense to justify it all. This is, in our opinion the real challenge for the years to come.

Keywords: European Union, structural solutions, immigration, federalization, Zeitgeist, spirit of times.

JEL classification: O19, P41, P43

Introduction

In March 2007 European Union celebrated 50 years since the signature of the Treaty of Rome, 50 years of accomplishments (such as the avoidance of war in Europe, economic growth, adoption of a single currency in many member states, considerable enlargement, a.s.o.) and of big hopes for the future (continuation of enlargement, transformation into a very competitive knowledge based economy, obtaining a prominent role in the world arena, etc.). It is interesting to note that by the same time, March 2007, the European Union through the voice of European Commission, listed some of the foreseen challenges for the next 50 years. In order they were: facing globalization, global warming, further enlargement, democracy and participation of the citizens[1].

5 years and a crisis later, in 2012, European Union has been confronted much sooner than expected with some of these challenges and more. Some of the challenges comes indeed from the impact of globalization, while others from some

* Florin Bonciu is Professor of World Economy at the Romanian American University in Bucharest. E-mail: fbonciu@gmail.com

[1] Celebrating Europe – The next 50 years, http://europa.eu/50/future/index_en.htm

inner structural issues as well as from changes in the social and political characteristics of the member states. A shocking example that illustrates the new design of the world economy and the decline of Europe was given in March 2012 by Jim ONeill from Goldman Sachs, the author in 2001 of the BRIC acronym. He pointed out that in 2012 China generates an output equivalent with the GDP of Greece in 11 weeks and a half and an output equivalent with the GDP of Italy in 15 months[2].

But, in our opinion, the most important, complex and even scaring challenge comes from a change in the "Spirit of the age" (genius saeculi), a very comprehensive and elusive notion for which the Germans coined such an appropriate word – Zeitgeist.

In the following sections of this paper the analysis starts from some social-demographical issues that create considerable challenges for the European Union at present and then gradually move towards what we perceive to be the real issues with the European Union.

The immediate social challenge - High and unequal unemployment in the European Union

The facts

As of February 2012 over 24.5 million people in the European Union were unemployed, the largest figure in the past 15 years. In March 2012 the unemployment rate for the euro zone was 10.8 %.

This average level of unemployment is significant and worrying but more worrying is the great disparity among member states. In some countries the unemployment rate was very low, such as: Austria – 4.2 %; The Netherlands – 4.9 %; Luxembourg – 5.2 %; Germany – 5.7 %. Nevertheless, in other countries the unemployment rate is more than high: Spain – 23.6 %, Greece – 21 %. To put more significance to these figures we can note that in Greece one out of every two the young people under 25 was unemployed and in Spain one out of five persons was unemployed. The overall trends for the European Union in 2012 compared to 2011 are not comforting either: in 8 countries the unemployment is lower, but in 18 countries is higher. As usual Romania is atypical, therefore in Romania the unemployment rate is the same as in 2011[3].

These figures are important because at the core of everything we discuss about European Union is and should be the people. European Union is not an abstract idea or construction, it is something that must deliver a better life to the majority if not to all European citizens.

---

[2] Jim O'Neill , Global economy needs BRICS, Greece 'dispensable', 23 May, 2012, http://rt.com/business/news/china-brics-greece-growth-949/

[3] Bianca Toma, UE cere taxe reduse pe munca, 17 aprilie 2012, http://www.adevarul.ro/financiar/UE_cere_taxe_reduse_pe_munca_0_683931984.html#

The figures above draw attention to two aspects referring to labor related social issues:

- These issues are of significant magnitude and therefore ask for concrete and visible solutions;
- These issues are very different from the perspective of various EU member countries.

The moment to tackle this issues is right because in 2014 a new seven years programming period begins and 2012 and 2013 are the years for drawing the plans for the medium term future.

But hopes can not be too high for practical solutions to be found and applied. There are at least four reasons for that. **First,** structural changes are by definition long term irrespective of the field of activity. The more so in social and demographical areas where the inertia of the phenomena is very long, therefore short term solutions are practically not possible.

Second, the functioning institutions and mechanisms of the European Union do not allow for fast and decisive responses. One of the main weaknesses in our view is the so called "open method of coordination" which does not work, at least, does not work properly. As long as member states exist and make significant decisions they will always, in a normal and natural way, put their interests first. The failure of the Lisbon Agenda is a relatively recent and clear example of what can be expected from the open method of coordination. Those that think in a binary way, that is 1 and/or 0, black and/or white may interpret the above statement as a support for the United States of Europe, that is for a centralized or better said a federalized approach. Anyway, the above statement is not such a support, it is just the observation that member states, particularly when confronted with (very) different circumstances and issues, can not coordinate properly only on the basis of logical arguments.

To further develop on the data above, in the first quarter of 2012 Germany recorded the lowest unemployment rate in 20 years, that is since reunification in 1990, while the growth rate of the economy in 2011 was 3 %[4]. For the same period of time Spain reached the highest unemployment in 15 years[5], one third of the unemployed from the euro zone being in Spain. This is not to blame someone or to point the finger. This is to say that real life situations are different in the European Union and that a "one size fits all" solution is not only highly improbable, it is impossible. Except the case when a European government would be in place, empowered to govern all across now 27 member states. Maybe some people would accept the scenario, but it is not feasible anyway, not within the current framework of institutions and mechanisms.

---

[4] Hardy Graupner, Unemployment in Germany lowest since 1991, January 3, 2012, http://www.dw.de/dw/article/0,,15642176,00.html

[5] Emma Ross-Thomas, Spanish Unemployment Reaching Highest in 15 Years, 27 January 2012, http://www.bloomberg.com/news/2012-01-27/spanish-unemployment-rises-to-22-9-.html

Third, in correlation with the above, there is the fact that not only the social issues but also historical, cultural, structural issues are very different among groups of European Union member states or even among states. To prove that it is enough to mention that Great Britain is different than the continental states, and this is a fact, while Romania is different from Western European member states and this is also a fact. To continue a bit the example, in the continental Europe, Germany is different from other continental Europe states. To imagine that countries as different as Great Britain, Germany and Romania have similar challenges and therefore may apply similar solutions is, in our opinion, highly improbable if not really impossible.

The long term demographic trends

The unemployment is just one of the socio-demographic aspects about European Union that is worrying. The others are related to decrease and aging of population, and its corollary in the labor area, that is the reduction of the workforce.

In order to compensate for these phenomena the only immediate solution consists in immigration. At least on the surface this solution may seem accessible given the fact that the world population is increasing (the world just counted the 7th billion citizen somewhere between October 31, 2011 – according to United Nations and March 12, 2012 – according to the US Census Bureau[6]) and therefore the fact that Europe has a decreasing and aging population can be easily compensated. Anyway, in view of the historical and cultural heritage of European countries, particularly the Western ones, as well as in view of the previous experiences with immigration to Western Europe starting with the 60s of the 20th century, this solution is not so feasible as it seems.

Further research on the subject reveals some difficulties related to the magnitude of the immigration policy that might compensate the European decline and aging of population. Some calculations done by Daniel Hamilton point that the 2011 immigration levels to European Union have to multiply five times till 2020 in order to maintain the ratio of active people to retired people of today[7]. The problem is that already European Union is the destination of 42.6 % of all immigrants in the world (that is 70 million out of 164 million). And this is further complicated by the fact that at present 85 % of the total unskilled immigrant labor goes to European Union, compared to only 5 % to United States.

Real challenges and "spiritual" challenges

The above data and the corresponding comments refer to real issues that require real solutions. But there is something more than meets the eyes. Something

[6] Daniel Goodkind, The World Population at 7 Billion, Population Division, US Census Bureau, October 31, 2011, http://blogs.census.gov/2011/10/31/the-world-population-at-7-billion/ .

[7] Daniel S. Hamilton, Europe 2020: Competitive or Complacent, Johns Hopkins University, Center for Transatlantic Relations, July 30, 2011.

so powerful that important leaders of the institutions of the European Union show publicly their concern.

On April 25, 2012, for the first time in history, the President of the European Parliament, Martin Schultz, warned on the risk of a possible collapse of the European Union as a "realistic scenario", that is a possible scenario. The warning was generated by the trend manifested in many member countries towards a return to a predominantly national approach for solving European problems, by the manifestation of xenophobia and requests for closing national borders as a departure from the Schengen Area principles[8].

The threats identified by the President of the European Parliament come not only from the heads of states and governments that attempt more and more to make decisions ignoring to a large extent the European Parliament. The threats come also from the mechanism of the European Semester. This mechanism asks the European Commission, a body that is not elected by the people of Europe, to study the draft budgets of member states before the budget commissions of the respective national parliaments. This may lead to a substantial democratic deficit because budgets are to be debated by the elected bodies like parliaments (national or European). Even in case of a true federation (which European Union is definitely not), such as the Federal Republic of Germany there are local budgets (lander budgets) and a federal budget and according to the law these two categories of budgets are autonomous and mutually independent in their management[9]. Therefore, the mechanism of the European Semester asks for more than it is asked in a real life federation, while the European Union is not a federation.

Also in April 2012 Herman van Rompuy, the President of the European Council stated that the "winds of populism threaten free movement" in response to various political positions expressed in France and the Netherlands[10]. In a way the explanation for the rise of state power as opposed to community institutions power as well as the rise of populism under the circumstances of high unemployment and uncertainty represent a reflection of the failure of European Union as a concept to offer a tangible project to the peoples of the European Union member states. In time of crisis, of hardships and lack of trust in the future people turn to what is imperfect but real, that is national or local political structures and politicians.

The fact that in many European Union member states as well as in the European Union institutions the majority if not all discussions since the autumn of 2008 are about austerity, cuts of budgets, salaries, pensions, funds have generated a sort of fatigue, simply put people are fed up with it. A passive and pessimistic European mood is substantiated by the fact that no one can see how austerity and

---

[8]Speech by EP President Martin Schulz to the Members of the European Commission, http://www.europarl.europa.eu/the-president/en/press/press_release_speeches/speeches/sp-2012/sp-2012-april/speeches-2012-april-2.html

[9] Thomas Knörzer, The Budget System of the Federal Republic of Germany, Bundesministerium der Finanzen, November 2008, 11016 Berlin.

[10] Valentina Pop, Van Rompuy: 'Winds of populism' threaten free movement,

budget cutting may lead to resuming growth. A "no plan, no hope" situation developed in time and the current messages from the European institutions leaders are not showing any clear, easy to understand road out of this.

Maybe, this is why Mario Draghi, the president of the European Central Bank asked recently for a "growth compact"[11], that is a plan for resuming growth in the Eurozone and in all European Union. It is important to note that a plan for resuming growth requires also a vision, a strategy with clearly defined targets and time periods.

Add to this the fact that in the news, Europeans learn everyday that other countries of the world are not, were not, will be not in crisis, be they China, India, Brazil, Turkey and so on. Sooner or later the European citizen may ask oneself: "Is it possible that something is wrong with us ?"And, to be frank, the Europe 2020 Strategy is so distant, so abstract, so unrelated to everyday life, that is not at all an answer to that question.

What it is mentioned above is not just a personal comment, it is a view shared, among others, by the Reflection Group on the Future of the European Union 2030 that was requested by the European Parliament and Council to formulate alternative scenarios and which briefly stated: **"Reform or Decline"**[12]. Other exploratory researches on the future of European Union in the context of a multi-polar global economy, such as the one called **Paradigm shifts modelling and innovative approaches** propose at the 2030 – 2050 time horizon solutions that are fundamentally different in comparison with the present institutions and mechanisms of the European Union[13].

European Union and the original sin

The difficulty of the European Union to find a comprehensive solution to its institutional and structural crisis as well as to its competitiveness problem in relation to the rest of the world has very long roots. And it may represent the intrinsic limit that can not be overcome.

In our opinion this is because of an original sin. At the very beginning of the European integration process there was a debate between federalism and functionalism. The objective and pragmatic solution that would allow for an effective allocation of resources , a solution that was purely technical, was that of federalism. Because you can not manage a real integration at such a large scale without a federal structure. Of course, from a theoretical standpoint there is an even better solution, a one European government for just one European state. Of course, the latter is even more far fetched than federalism. But, at all times federalism was not acceptable for historical, cultural, political and many other reasons.

---

[11]ECB chief surprises with call for euro 'growth compact', 25 April 2012, http://www.eubusiness.com/news-eu/finance-public-debt.g66

[12] PROJECT EUROPE 2030 - Challenges and Opportunities, A report to the European Council by the Reflection Group on the Future of the EU 2030, May 2010

[13] http://www.pashmina-project.eu/

Therefore the "original sin" was to say that European Union as an entity (with its various formats, European Economic Community, Single European Space, European Union) is not about federalism (which in fact it was and it always has been) and is about cooperation (such as the famous "open method of coordination" and others), is about "multi-level government" or "subsidiarity", all of these being in fact diluted (and therefore acceptable at the level of the member states) forms of federalism. Because the essence of "subsidiarity" or "multi-level government" is to say that, yes, there are some areas where we have European decision making mechanisms (that is super state level), but, these are only for issues of European interest while, at local or regional level European Union means, in fact, even more autonomy than in a normal state.

This way of presenting things functioned for a long time, but it is totally non-functional in a period of crisis and in a period of change of paradigm. In such periods there should be unity of command, bold actions, changes of direction and some ideals to mobilize the people.

The complicated and distant and overlapping institutional structures of the European Union which were created as such as a compromise between the objective need for federalism and the need for acceptance from the part of the European member states can no longer be a solution.

This is why we can not expect a clear solution to the current situation. This is why European Union is only doing some patchwork to cover intrinsic deficiencies and postpone to 2020, 2030 or even 2050 fundamental changes.

One aspect we want to point to is the fact that the above analysis is not an attack to the concept and functioning of the European Union. We are not here against European Union. We are looking for a pragmatic and functional solution to a systemic problem that succeeded to be postponed for too long. In fact, the long term history proves that all state structures have a certain dynamic, they change in time, adapt and survive or fail to adapt and disappear. This is just historical evidence and from this perspective why not accept that a 62 years old paradigm (if we count from 1950 when on May 9th the Schuman Declaration unveiled a new plan for a new Europe[14]) is old enough in terms of social politics to be replaced by a new one, more adapted to a very, very different world than that of 1950.

Long term solutions for European Union are more sociological and cultural rather then economic

We started this paper with some considerations on the current social and demographical situations in the European Union. The obvious solution to demographic trends is free movement of labor and immigration. The obvious solution to the economic and primarily financial issues is an European (federal)

---

[14] The Schuman Declaration – 9 May 1950, http://europa.eu/about-eu/basic-information/symbols/europe-day/schuman-declaration/index_en.htm

government with an European (federal) budget. The obvious solution to long term competitiveness issue is a true internal free market that will allow for a much better allocation of resources and for true economies of scale, large enough to allow competitiveness with the new economic powers (China, India) and old ones (United States).

But these three obvious solutions rise **two types of difficulties**. **One difficulty** is sociological and cultural. That difficulty refers to the "why" of things. **The other difficulty** is managerial and logistic. That difficulty refers to the "how" of things.

The obvious solution to demographic trends is free movement of labor and immigration.

Freely accepting immigration is not an easy task. In the short run it is (almost) impossible. European Union member states still have a problem to accept free movement of labor inside European Union, that is among member states not to mention world wide free movement of labor.

Therefore, the first step is to really achieve free movement of labor inside the European Union. The implications of this for social security, pensions systems , health care and others are staggering. But it is something to be done. Further on, an active immigration policy for the European Union vis-à-vis the rest of the world means to have criteria for filtering the labor requests, a very good monitoring system and a social and cultural policy for integrating the immigrants in the European social structures. In this respect United States can be (again) a model, as well as Canada. And a "don't" model is represented by the persistent omission of integrating immigrants in the local communities in Germany since the '70s.

To achievement of such a free movement of labor first within the European Union and then vis-à-vis the rest of the world needs not only a determined political will but also a very good communication policy in order to explain in great detail to the population what is the reason for such an European policy and which are the benefits.

The obvious solution to the economic and primarily financial issues is an European (federal) government with an European (federal) budget.

The crisis in the Eurozone gave reason for many serious and honest debates on the structural problems of the single currency. A well known problem was time and again mentioned: one can not have a single currency without a single fiscal policy. But the problems are not only about the single currency. In case of European funds, the lack of absorption or the misuse of funds are often due to the fragmentation of decision making, interference of local interests and lack of perception at local, regional and even national level of the European wide interests.

A single European government (in a federal type of state) would solve all this issues and would give a real chance to the application of the subsidiarity mechanism.

Within such an European government umbrella the delegation of decisions for local, regional, national issues would be not only recommended but also the only feasible approach possible. Within such a system, the projects of true European interests would be governed directly from a European government and the implementation of such projects would be fast and efficient (such as the Ten-T projects, or European energy infrastructure projects).

This solution also requires political will and vision from the part of the European leaders. And maybe even more than in the case of labor this solution requires a lot of debate and communication as well as a very transparent implementation mechanism so that any suspicions, particularly those with historical roots, be avoided completely. All stakeholders have to participate in these debates and all points of view have to be taken into account. A long term true European project needs a firm foundation and no deficit of democracy can be accepted because such a deficit would undermine the stability of the construction in the long run.

Such a project is a long term one. But this is not an excuse for not starting today a decade long process. Not a single person can conceive such a project and it can not be imposed from top down. Europe needs to reinvent itself and this can not be done without the people of Europe, but only with them. At the same time, we can not expect the people of Europe, all of them 500 million, to design collectively a new paradigm for the 21st century. Persons with vision are needed to propose a blueprint for a new paradigm, for new values and a sustainable life style. And then we need the patience to debate such a blueprint for a decade, using all the social networks and other means of communication that the Internet may provide.

The obvious solution to long term competitiveness issue is a true internal free market that will allow for a much better allocation of resources.

The first two solutions, once gradually implemented, will provide for an increase of competitiveness. But in order to achieve the economies of scale that Europe may provide a true free movement of the economic factors is needed. Simultaneously, a better and better understanding of what globalization is have to be achieved at a mass level. Because the European size free market is not something against globalization but a form of participation to globalization. Europeans unite because they have to compete globally. And an European sized free market is their best response they have for competing globally.

Conclusions

The world has changed dramatically in the past decade. And Europe as a whole and European Union as a part of Europe are rather followers than leaders. According to several studies on future trends in the global economy, if in 1900

Europe (without Russia) represented about 40 % of the World Gross Domestic product and in 2000 represented about 25 %, by 2050 Europe will represent only 11 - 15 %, that is more than 3 times less[15],[16].

European Union is confronted with a lot of internal crises (euro-zone, demography, deficit of democracy, lack of effectiveness and efficiency of its institutions, to name but a few) and external crises (decline of competitiveness, lack of coherence as a global actor, lagging behind in research-development and innovation).

Our approach is that the internal and external crises should be treated as sides of the same coin, as manifestations of the same problem. And the problem is that European Union and Europe as a whole is no longer synchronized with the global trends, with the new approaches, new values, new balance of power. Such large and comprehensive issues can not be solved by small, partial solutions. They require a new design, a new paradigm as a European decade long project. As Europeans we should be all part of it.

[15]Global Europe 2050, European Commission, Directorate-General for Research and Innovation, Directorate B – European Research Area, Unit B.5. – Social Sciences and Humanities, 2012

[16] Jean Fouré, Agnès Bénassy-Quéré, Lionel Fontagné, The world economy in 2050: a tentative picture, CEPII, WP No 2010-27, Centre D'Etude prospectives et des Informations Internationales

THE MEANING OF MACROECONOMICS

Jörg Guido Hülsmann[1]

Abstract

The present paper is based on the Ludwig von Mises Lecture given at Grove City College on February 25, 2012. It discusses the meaning of macroeconomics from the point of view of the Austrian School. We give a brief outline of the history of macroeconomics (I) and then ponder the substantive arguments for and against macroeconomics as a scientific discipline (II). We are especially interested by the question whether and to which extent Austrian economics and macroeconomics can be reconciled. Is there something like Austrian macroeconomics?

Key words: History of macroeconomics, Austrian school, Austrian macroeconomics

JEL Classification: B13, B25

In the present paper, we shall give a brief outline of the history of macroeconomics (I) and then turn to ponder the arguments for and against macroeconomics as a scientific discipline. We are especially interested in the question whether and to which extent Austrian economics and macroeconomics can be reconciled. Is there something like Austrian macroeconomics? (II)

I. The History of Macroeconomics in a Nutshell

Ever since the word "macroeconomics" had been first used in print, it meant a type of economics that had no roots in the analysis of human action.[2] The divide between micro and macro did not coincide with the divide between partial equilibrium and general equilibrium.[3] To do macroeconomics meant to study the

[1] LUNAM Université, Université d'Angers, GRANEM, UMR MA n°49, Faculté de Droit, d'Economie et de Gestion d'Angers, 13 allée François Mitterrand, 49036 Angers cedex 01, E-mail: Guido.Hulsmann@univ-angers.fr

[2] The terminology goes back to Ragnar Frisch (1933) who distinguished between "micro-dynamic" and "macro-dynamic" analyses.

[3] Frisch (1933, pp. 172f) had explicitly rejected Walrasian-style general equilibrium theory: "Indeed, it is always possible by a suitable system of subscripts and superscripts, etc., to introduce practically all factors which we may imagine: all individual commodities, all individual entrepreneurs, all individual consumers, etc., and to write out various kinds of relationships between these magnitudes, taking care that the number of equations is equal to the number of variables. Such a theory, however, would only have a rather limited interest. In such a theory it would hardly be possible to study such fundamental problems as the *exact time shape* of the solutions, the question of whether one group of phenomena is lagging behind or leading before another group, the question of whether one part of the system will oscillate with higher amplitudes than another part, and so on. But these latter problems are just the essential problems in business cycle analysis. In order to attack these problems on a macro-dynamic basis so as to explain the movement of the system taken in its entirety, we must deliberately disregard a considerable amount of the details of the picture. We may perhaps start by throwing all kinds of

relationships between aggregate variables such as aggregate spending, aggregate production, the price level, the interest rate, and aggregate employment, usually with the help of mathematical and econometric models. It meant to not even make an attempt at tracing those variables and their relationships back to human action, and thus to individual perceptions, plans, expectations, and choices. The very raw material of macroeconomics was to be found exclusively in aggregate data. Macroeconomics was a discipline apart from the study of human action.

Analysing human action was held to be pointless as far as the economy as a whole was concerned. Human action mattered only in the microcosm of households and firms. It mattered only for the study of parts within a larger whole, but not for the larger whole itself. The behaviour of households and firms could be studied in terms of choices and expectations. But the results of such microeconomic enquiries could not be generalised to apply to the economy as a whole. The latter was subject to laws *sui generis*, and these laws could very well contradict the laws that held true for the parts.

Macroeconomics in this sense was in the making long before 1933. It can be traced back at least to the French economist, François Quesnay, who in the 1750s developed his famous model of spending streams within the economy, the *Tableau écconomique* (1759) which depicted the economy as a whole.[4] A century later, Karl Marx (1894, chaps 9 and 10) claimed that the equalisation of profit rates was a law of the economy as a whole. It did *not* apply to individual firms, because each firm was likely to have a permanently higher or lower profit rate, depending on the amount of labour it used relative to the other factors of production. At about the same time, Leon Walras (1874) pioneered mathematical macroeconomics by developing a system of equations to model the relationships between the prices and quantities of all economic goods. It is true that his model was based on the principle of diminishing marginal utility. However, this principle was not, as in the theory of Carl Menger, a true *law* of the economy. It was merely a convenient (dispensable) hypothesis to render some of the equations plausible.

Not surprisingly, Quesnay, Marx, and Walras have been heroes in Josef Schumpeter's famous *History of Economic Analysis* (1954). Schumpeter's successors among the historians of economic thought have adopted the same point of view, except that in their account Quesnay, Marx, and Walras were mere forerunner to John Maynard Keynes. And it is true that, with Keynes' *General Theory of Employment, Interest, and Money* (1936), macroeconomics as it is being taught today has come into its own.

It was not all of Keynes' own making. However, in the 1920s and 1930s, Keynes was the focal point at the intersection of two longstanding intellectual movements. One was the positivistic movement decisively inspired by Auguste Comte (1798-

production into one variable, all consumption into another, and so on, imagining that the notions 'production,' 'consumption,' and so on, can be measured by some sort of total indices."

[4] Again, the pioneering paper by Frisch (1933, section 2) expressly referred to the *Tableau économique* as a predecessor.

1857) which started invading economics in the latter half of the 19th century. The other movement was the even older, namely, mercantilism. Despite the success of Adam Smith and the classical economists, mercantilism had never completely died out. At the heyday of classical liberalism, between 1840 and 1870, it lingered on in the writings of fringe figures such as Silvio Gesell. But then it started creeping into the mainstream, when governments began to create economics chairs at public universities and filled them with intellectuals favourably disposed toward interventionism.[5]

Both movements, positivism and mercantilism, had gained a critical mass after WWI. Then came Keynes, created that particular blend that we call Keynesian macroeconomics, and led it to smashing victory. The blending of positivism and mercantilism had been long in the making. Even before Keynes, the two movements were often intertwined, most notably in the writings of Claude Henri de Saint-Simon (1760-1825) and of his personal secretary, Auguste Comte. Keynes' contribution was marginal, but it was decisive. He brought into play most notably his personal virtues – a brilliant debater, he was famously smart, witty, and charming – and he invented a whole new vocabulary.

The new terminology – aggregate demand, the multiplier, propensity to consume, etc. – was a strategic stroke of genius. It was crucial to dispel the fatal impression that the new doctrine was a warm-up of dishes that had been on the menu for decades and even centuries. Those who knew this was the case also knew why the Keynesian dish had not been served much: lacking customer demand. But for the blissfully ignorant – and this group included not only beginners, but also the professors who had never made the effort to familiarise themselves with classical economics – the dish seemed to be brand new. Thus they could have the exciting impression that, following Keynes, they were about to explore unchartered territory that in the past had been neglected out of dogmatism and bad faith. They could see in themselves the avant-garde of a new dawn for Enlightenment.[6]

These circumstances of what Keynes devotees have called the Keynesian revolution (which should in fact be called the Keynesian counter-revolution) are crucial to understand the evolution of economic thought after Keynes. In economics,

---

[5] See Hülsmann (2007, pp. 121f) Writing immediately after WWII, Ludwig von Mises observed: "For a correct appraisal of the success which Keynes' General Theory found in academic circles, one must consider the conditions prevailing in university economics during the period between the two world wars. Among the men who occupied chairs of economics in the last few decades, there have been only a few genuine economists, i.e., men fully conversant with the theories developed by modern subjective economics. The ideas of the old classical economists, as well as those of the modern economists, were caricatured in the textbooks and in the classrooms; they were called such names as old-fashioned, orthodox, reactionary, bourgeois or Wall Street economics. The teachers prided themselves on having refuted for all time the abstract doctrines of Manchesterism and *laissez-faire*." (Mises, "Stones Into Bread, The Keynesian Miracle [1948]" H. Hazlitt (ed.), *The Critics of Keynesian Economics* [(2nd ed., Irvington-on-Hudson, NY: Foundation for Economic Education, 1995], p. 313.)

[6] This erroneous self-perception was reinforced by the lavish public spending on academic salaries after WWII. On the GI Bill see Hülsmann (2007, p. 791) and the references given there.

the history of the past eighty years has been the history of the slow liberation of the mainstream from the postulates of positivism and mercantilism. The liberation from positivism has still barely begun. The liberation from mercantilism started early on and has made great strides, though it is still far from being completed. Let us briefly consider these two movements in turn.

Within the positivist movement, the revolt against mercantilism under the Keynesian flag started in the 1950s and was spearheaded by the American economist Milton Friedman.[7] Witty and resourceful as Keynes, Friedman was very much the post-war *alter ego* of the British economist. Friedman demonstrated that positivism does not logically imply mercantilism, as it had been usually contended since the days of Saint-Simon. This was his central achievement and title to a place in the history of economic thought. Most notably, he destroyed three core contentions of Keynesianism.

One, Friedman (1962, chap. V; 1969, chap. 9) argued that the "multiplier" of public spending works both ways; that is, that there is not only a positive multiplier, but also a negative one, because the resources mobilised through public spending lack at other places of the economy. Two, Friedman (1969, chap. 5) showed that the Phillips Curve crucially relied on the hypothesis that the suppliers of labour suffer from money illusion – that is, that they mistake increases of monetary income for increases of real income – and that, in the absence money illusion, expansionary monetary policy was not likely to increase employment and production (respectively reduce unemployment). Three, extending the critique of the Phillips Curve, Friedman (1956, chap. 1; 1970) argued that the Hicksian IS-LM analysis had to be amended by taking into account the purchasing power of the money unit, respectively the price level. An expansionary monetary policy was not likely to entail a mere right-ward shift of the LM curve, thus entailing a tendency for aggregate revenue to increase at a lower interest rate. Rather, the IS curve was likely to make right-ward shift, too, because savers and investors would take account of the increased price level resulting from the increase of the money supply. Therefore, the overall impact of expansionary monetary policy on employment was likely to be nil. In the long run, unemployment would oscillate around a natural level (resulting in particular from search costs on the labour market), independent of monetary policy.

Friedman's arguments were not genuinely new in their substance. The negative multiplier was a direct implication of the broken-window fallacy highlighted by Frédéric Bastiat (1801-1850). Similarly, the case against generalising the Phillips Curve had already been made by Ludwig von Mises (1931, p. 31), almost thirty years before Friedman. However, the expression "negative multiplier" and his ability to show that graphical models such as IS-LM could be used to make a case against neo-mercantilism, demonstrated Friedman's rhetorical prowess and his ability to communicate classical ideas to a profession steeped into self-conceit and Keynesian

[7] Austrian economists were of course fundamentally opposed to Keynesianism from the outset. We shall deal with their opposition below.

vocabulary. We notice in passing that Friedman did not obtain his Nobel Prize for combating neo-mercantilist errors. Rather, he was recognised for the toothless achievement of having modelled and tested a permanent-income hypothesis.

After Friedman, the academic mainstream liberation from mercantilist dogma switched to a slower pace and did not feature any genuinely new arguments. Much fuss has been made of the new classical economists around Lucas, Sargent, Wallace, Prescott, Kydland, and others. But their central tenet – the validity of the rational expectation hypothesis – was but an application of the previous insight about the role of money illusion on the labour market, already articulated by Mises and Friedman. The new element in this strand of literature is exclusively formal in nature. There was a new class of models that was centred around the concept of a representative agent, and which was tested with new econometric techniques. But the harvest was zero as far as genuinely new and lasting insights were concerned, and it was similarly dim in its policy implications.[8]

Outside of the Austrian School, only one group of economists found its way out of the neo-mercantilist impasse. At the end of the 1970s, Arthur Laffer, Paul Craig Roberts, and others coined the term "supply-side economics" to brand their return to classical conceptions about growth and government interventionism. They highlighted the beneficial role of savings, demolished the claim that consumption was the source of wealth, and refuted the idea that increased taxation might stimulate the market participants to work and produce more eagerly ("income effect"). Most importantly, in distinct contrast to Milton Friedman and the monetarists, they clearly understood and stressed the central methodological flaw of the prevailing neo-mercantilist conceptions. That flaw consisted in trying to substantiate statements about the economy as a whole on the basis of partial-equilibrium analyses. Keynesian macroeconomics *claimed* to be truly macroeconomic in scope. In fact, however, it generalised microeconomic relations.[9]

The supply-side movement was influential among business economists and was quite present in the rhetoric of the Reagan administration. However, it had much less impact on the profession of academic economics and thus the liberation of mainstream academia from mercantilist fallacies remained very incomplete. The differences that have existed between the Austrians and the mainstream in the immediate post-war period have been narrowed down – a long-run consequence of Friedman's strong impact and of the much weaker impact of supply-side economics. However, the gap remains. Mainstream academic economists – including those of

[8] The same thing holds true for the more recent transition to dynamic stochastic general equilibrium models. It is true that the transition from IS-LM to DSGE has been significant (see Vroey 2004), but substantive contributions have been virtually absent.

[9] Discussing the alleged income effect of increased taxation, P.C. Roberts (1978, p. 31) argued: "It derives from trying to aggregate a series of partial equilibrium analyses (individual responses to a change in relative prices) and, in the aggregate, ignoring the *general* equilibrium effects." For a critique of the income effect see Salin (1996). William Laffer (1990, p. 29) perceptively calls Keynesian economics "the logical extreme – and nadir – of Marshallian analysis."

the monetarist branch – still believe that aggregate spending drives the economy, that increased consumer spending is a motor of economic growth, that an increase in the volume of credit is virtually always beneficial, and that deflationary tendencies – be it a reduction of aggregate spending or of the price level – have negative consequences for the economy. Most importantly, mainstream economists – especially of the monetarist branch – still believe that it is possible and expedient to stabilise the economy through monetary interventionism.

II. Austrian Macroeconomics

Turning now to the Austrian economists, let us first briefly review the historical stance adopted by Austrian economists toward Keynesian macroeconomics and then turn to the more substantive question of whether and to what extent there can be such thing as Austrian macroeconomics.

1. Macroeconomics and the Austrian School

First of all, we have to underline the crucial fact that the Austrians had never been infected by the Keynesian dogma in the first place.[10] Mises, Hayek, Hazlitt, Sennholz, Rothbard, Kirzner, and all other Austrians opposed Keynesianism from the very beginning, and this opposition almost became a defining feature of their public image. Keynesians therefore perceived the Austrians as old-school thinkers who simply didn't get it.[11] As a consequence, the Austrians were marginalised from 1936 to the early 1970s – the years of triumphant Keynesianism – and almost fell into oblivion. In the very years when academic positions in economics were multiplied, the Austrians were not invited to the party. The path-dependency of institutional evolution did the rest. It kept the Austrians in a minority position even when it became blatantly obvious that it was the Keynesians who didn't get it and the mainstream slowly turned away from it. This is the reason for the feeble academic presence of Austrian economics today. This is the reason why all conventional tools and mechanisms for evaluating the achievements of academic economists are still biased against the Austrians, even though the Austrians have been vindicated on virtually all accounts.[12]

---

[10] This concerns in particular the Böhm-Bawerkian respectively Misesian branch of Austrian economics. The Wieserian branch did make various concessions, most notably in stressing the desirability of stable respectively expanding aggregate demand.

[11] Astonishingly, there was at the time no serious debate, with the sole exception of the debate on socialist economic calculation. The general perception then was that the Austrians had lost this debate. The validity of the Austrian position was recognised only in the wake of the collapse of soviet socialism in the early 1990s. Heilbroner (1990) then famously acknowledged: "It turns out, of course, that Mises was right." Needless to say, this did not significantly reinforce the Austrian standing within public universities.

[12] See Block and McGee (1991), Thornton (2004), Block, Westley, and Padilla (2008), Block (2010).

The inertia resulting from the path-dependency of institutions is particularly striking today. The current economic crisis, which for more than four years has been unravelling under our eyes, has prompted as massive disillusionment with mainstream economic thinking among business economists – especially on the financial markets – and also, to some extent, among the so-called policy makers. The failure of mainstream economics has been patent. There has been much breast-beating and many public statements of good intentions to mend the bad old ways. But virtually nothing changed in practice, except for a greater attention to "behavioural finance" and other approaches that remain squarely within the mercantilist and positivistic conventions. Indeed, a fast and fundamental reorientation of research and teaching is virtually ruled out thanks to the government-financed institutional inertia in higher education. While investment funds and other companies have fired entire battalions of economists who did not deliver the goods, the academia slugs behind the real world in drawing practical consequences.

Within the Austrian camp, an interesting evolution started in the mid-1970s with the appearance of something called "Austrian macroeconomics." The first author who used this expression was Roger Garrison in his 1976 paper "Austrian Macroeconomics: A Diagrammatical Exposition." More recently he elaborated on this theme in *Time and Money: the Macroeconomics of Capital Structure* (2001). Given the historical context – the association of the word macroeconomics with positivistic and mercantilist ideas on the one hand, the fundamental opposition of the Austrians to these ideas on the other hand – the very expression Austrian macroeconomics was an oxymoron. There could be no such thing as Austrian macroeconomics, such as there was no vegetarian cannibal, no promiscuous virgin, and no communist who was both honest and smart.

Nevertheless, in the past ten years, a good number of Austrian economists other than Roger Garrison have adopted the term Austrian macroeconomics, too. Among them are Steve Horwitz, Renaud Fillieule, and the present writer. Still the general attitude has remained reserved and cautious. Writing twelve years ago, Steve Horwitz (2000, p. 1) characterises this attitude in these words:

In the eyes of many economists, Austrians are seen as rejecting the whole concept of macroeconomics in favor of a focus on microeconomic phenomena such as price coordination and entrepreneurship. There is some truth to this perception. In a great deal of the post-revival (i.e., since 1974) literature in Austrian economics, Austrians have tried to define themselves in terms of their methodology (subjectivism) and their understanding of the market as a competitive discovery process rather than as tending toward, or mimicking, general equilibrium. Austrians' self-described 'uniqueness' has almost exclusively been focused on microeconomics.[13]

---

[13] In a footnote, Horwitz then refers to a "representative sampling of these works and their strong, although not exclusive, emphasis on microeconomics and methodology" mentioning Israel Kirzner, Gerald O'Driscoll, Mario Rizzo, Esteban Thomsen, Roy Cordato, Bruce Caldwell, Stephan Boehm, Karen Vaughn, and Samford Ikeda. The common ground of all these authors is that they take their inspiration predominantly from Hayek, less so from Mises and Rothbard. Horwitz (2000, p. 1) is

Thus the question is if and how these seemingly different positions can be reconciled in light of the facts. In what follows we will first discuss Roger Garrison's conception of the subject matter of macroeconomics and then highlight two arguments in favour of an Austrian macroeconomics.

2. Critique of Garrisonian macroeconomics

According to Roger Garrison (1984, p. 200), the discipline of Austrian macroeconomics revolves around the analysis of time and money:

Time is the medium of action; money is the medium of exchange […] And it is precisely the "intersection" of the "market for time" and the "market for money" that constitutes macroeconomics' unique subject matter.

Anyone familiar with Austrian capital theory (most notably presented in Rothbard's *Man, Economy, and State*) and with the Austrian theory of money (most notably in Mises' *Human Action*, as well as in his *Theory of Money and Credit*) will find Roger Garrison's statement plausible. Indeed, the market for money, by definition, covers the economy as a whole. If any good has the nature of being macroeconomic, then it is money. Moreover, as has been explained by Mises and subsequent Austrian economists, money is not neutral. It is not just a Walrasian *numéraire*. Changes in the supply of and demand for money affect the distribution of real incomes and therefore modify the structure of production. Unanticipated changes of the money supply entail inter-temporal disequilibria.

It is a completely different question, however, whether this broad characterisation is sufficient as a definition of macroeconomics, and of Austrian macroeconomics in particular. Why do we need something called macroeconomics to deal with the market for money? Why can we not apply the usual procedure: derive demand and supply schedules from subjective value scales, and then explain the pricing process in the light of the demand for and supply of money?

The same reservation needs to be made regarding other works inspired by Roger Garrison. For example, Steve Horwitz' "macroeconomics of monetary disequilibrium" stresses the economy-wide repercussions of monetary disequilibria, and rightly so. But is this fact all by itself sufficient to vindicate a special field or discipline called macroeconomics?

It is no accident that Garrison made the case for Austrian macroeconomics in 1976. At that point Milton Friedman had cleared the way to show that macroeconomics did not have to be based on mercantilist postulates. Friedman and the other monetarists not only remained within the dominant epistemological framework of positivism, they also did not question the Keynesians' rudimentary conception of capital. In other words, they lacked a capital theory, and therefore also

---

therefore right on target when he adds: "Even Hayek, in his last book, referred to macroeconomics in sneer quotes […], suggesting that a rejection of the subdiscipline was still alive and well in some Austrian quarters. It comes then as little surprise that much of the microeconomic and methodological work in the post-revival literature in Austrian economics finds its roots in Hayek."

lacked understanding for the problems associated with the inter-temporal allocation of resources. Roger Garrison filled this gap by bringing Austrian themes into purview.

The question is, however, whether the mere treatment of Austrian themes – whatever this is supposed to be – is all by itself a token for Austrianness. More than ten years ago, the present writer (Hülsmann 2001) raised the question is whether Roger Garrison was about to austrianise the mainstream, or whether he was rather going to mainstream the Austrians. By virtue of hindsight, it is patent that the mainstream has not been charmed overly much by *Time and Money*. Ron Paul has probably done more to attract the attention of the likes of Paul Krugman to Austrian tenets than any academic text – Roger Garrison's book included. By contrast, Garrison undoubtedly did have some impact on research by younger economists interested in the Austrian School, by focussing their attention on the *modelling* of relations between the time market and the structure of production.

One cannot deny the pedagogical utility of graphical models such as demand and supply schedules. Roger Garrison's three-quadrant model, which he himself considered to be one of his chief contributions, is a case in point, despite its imperfections.[14] But, again, the model all by itself does not make the case for macroeconomics, or even Austrian macroeconomics.

3. The case for Austrian macroeconomics

Still the case for Austrian macroeconomics is not all lost. In what follows we shall consider two arguments that could be adduced to vindicate that case.

Studying the relationships between markets

According to the first argument, economic analysis is chiefly concerned by studying the inter-relationships between markets. A Henry Hazlitt stressed more than sixty-five ago, the characteristic feature of the good economist is that he does not focus his attention on any single event or change, but on the corresponding changes induced elsewhere in the economic system. Or, as Bastiat has told us, we should not only consider the consequences that are seen, but also those that are not seen.

This concern is indeed a characteristic feature of Austrian economics, which stands in stark contrast to neoclassical microeconomics, which is exclusively focused on single markets, and not on the relationships between markets. Therefore, in this sense Austrian economics is by its very nature macroeconomic, rather than microeconomic in the neoclassical sense.

At the risk of appearing to be hair-splitting, however, let us emphasise that this argument is different from Garrison's contention that time and money are the phenomena that define Austrian macroeconomics. Indeed, markets are inter-related even in a barter economy, and even in the absence of saving and capital accumulation. Even a simple change of the demand schedules for a good X goes in hand with corresponding changes in the demand for other goods.

[14] For a critique of Garrison's model see Hülsmann (2001). An alternative model is presented in Hülsmann (2011).

Microeconomic relationships cannot always be generalised

The second argument in favour of Austrian macroeconomics is even more poignant. It stresses that it is not always possible to generalise a causal relationship identified on a microeconomic level.

For example, it is possible for an individual firm to increase the quality of its products in order to increase its monetary revenue. Thus here there is a causal relationship that holds true for one market participant, *ceteris paribus*, that is, under the assumption the he alone improves the quality of his products. But this causal relationship does not hold if the *ceteris-paribus* assumption does not strictly hold.[15] That is, it cannot be generalised. Under constant monetary conditions, if all firms increase the quality of their products at the same time, then it is impossible for all of them to have higher monetary earnings at the same time. The reason is, of course, that each dollar spent on one product is not available for expenditure on other products. Any additional revenue earned by one firm must therefore go in hand with lower revenue elsewhere in the economy.

This insight is as old as economics itself. Classical economists such as Ricardo (1821, chap. XX) carefully distinguished between (monetary) values and (real) riches. The reason was precisely that the embodiment of wealth from an individual point of view (money, monetary revenue, the monetary equivalent of nonfinancial assets) was irrelevant from an overall point of view.

In Austrian economics, too, this insight has always been present, and it has always played an important role. One of the Böhm-Bawerk's (1959, pp. 248-256) seminal contributions was to demonstrate that costs of production result from the value of (alternative) consumers' goods. The "law of costs" was not a cause apart from subjective value, but a mechanism through which the subjective value of products determined the prices of factors of production. From the microeconomic perspective of firms, costs appeared to be a separate cause of the price of their products, different from the subjective value that these products had for their clients. But factor prices result from the competitive bidding of firms, and because this bidding is based on expected customer demand for products, it follows that costs of production ultimately derive from the subjective value of consumers. Thus, again, one cannot generalise a causal analysis that seems to be plausible from an individual perspective. Only an overall perspective leads to the correct result.

Murray Rothbard, too, in his treatise *Man, Economy, and State*, highlighted several such phenomena. For example, Rothbard (1993, p. 600) stressed that the concept of price-elasticity cannot be generalised to the economy as a whole. It is impossible that he demand for all goods is elastic at the same time; and it is equally impossible that that he demand for all goods is *in*elastic at the same time. Rothbard (1993, pp. 515f)

15 From a counterfactual point of view (see Hülsmann 2003), one would have to stress that these laws are only "case probable" (Mises 1949, chap. 6). A firm improving the quality of its products makes the increase of its revenue *more* probable than otherwise. But if other factors come into play – for example, a simultaneous quality increase of all competing products – then its revenue will not necessarily tend to increase.

also points out that, on each *partial* labour market, the labour supply schedule is a monotonic positive function of the real wage rate. But on the *overall* labour market, the supply schedule is not monotonically positive. Rather, once real wages reach a certain level, the market participants tend to have a higher reservation demand for their time. In other words, the overall labour supply curve then starts to bend backward.[16]

Notice that this second strand of argument goes beyond the first one that we considered before. The contention is not just that markets are inter-related, but that there are *phenomena that appear only on an aggregate level.* They are the proverbial result of human action, but not of human design. Generalising the causal relationships that we find on partial markets can therefore be fallacious – the fallacy of composition.

A digression on the fallacy of composition

The fallacy of composition is one of the first elements taught in typical freshman classes in macroeconomics. It is also a central element in the Keynesian vulgate.[17] Keynesians relish in stressing the fallacy of composition, because it highlights the limitations of a purely microeconomic approach (in the neoclassical sense) and seems to vindicate their opinion that macroeconomics is a discipline apart, with no connection to human action.

The favourite Keynesian illustration of the fallacy of composition is the so-called paradox of thrift, also called paradox of savings. They claim that an individual who increases his savings can indeed increase his wealth, but only at the expense of other people. Indeed, greater savings *by definition* go in hand with reduced consumer expenditure. Thus the revenue of firms is reduced.

Moreover, and most importantly, if *everybody* set out to save more at the same time, then firm revenues would plummet and a vicious circle would set in: investments would plummet, therefore factor revenues would plummet, therefore consumer expenditure would plummet even more, etc. etc. The economy sinks into a bottomless deflationary spiral – a paradoxical result from the point of view of purely microeconomic wisdom. It follows that higher savings are the egoistic luxury of a select few. Altruistic motives would lead to the exact opposite behaviour, namely, a reduction of savings and increased consumer expenditure. In Keynes' words: "The more virtuous we are, the more determinedly thrifty, the more obstinately orthodox

---

16 The same type of argument has later also been prominent in the contributions of supply-side economists, for example, in their refutation of the income-effect argument in favour of the increased taxation of incomes. As William Laffer (1990, p. 46) points out: "While increases in after-tax income due to improvements in technology and productivity over time *can* and *do* have the net effect across society as a whole […], increases in after-tax income due to tax rate reductions are fundamentally different: While it certainly is possible for *particular individuals* to respond to a tax rate cut by working less rather than more, it is impossible for *labor supply as a whole* to respond in this way *unless total real wealth is increased* – a condition which holds in the case of a technology or productivity change but not in the case of a tax cut." See also Roberts (1978, p. 31).

17 Hunter Lewis (2009, pp. 4-6) highlights that US presidents Bush and Obama, as well as their advisors, have publicly referred to the paradox of thrift to justify their policies.

in our national and personal finance, the more our incomes will have to fall when interest rises relatively to the marginal efficiency of capital."[18]

To sum up, mercantilism and the rejection of methodological individualism are but two faces of the same medal. Case closed for the happy Keynesian professors. They are right in stressing the fallacy of composition. The only problem is that they are mistaken on the other accounts. They are mistaken on methodological individualism, and they are even more mistaken on the fallacy of savings.

From the fact that some phenomena only appear on a macroeconomic level, it does not at all follow that the analysis of individual behaviour is pointless. From the fact of the existence of macro-phenomena the Keynesians jump to the assertion that there is no connection to individual behaviour.[19] But one does not follow from the other. No economist before them made such an extravagant claim. The classical economists realised full well that one could not always generalise the causal relationships found in the analysis of partial markets. In particular, the understood that an increase of aggregate production – resulting from technological progress, increased savings, reduced trade barriers, or a combination thereof – was likely to reduce the general level of money prices. Greater real income would be earned at lower monetary income. For this precise reason, Ricardo stressed the distinction between (monetary) values and (real) riches. And the Austrian economists, too, perfectly understood this point. The fallacy of composition does not warrant throwing methodological individualism over board. It cautions against hasty generalisations; that is all.

Turning now to the paradox of savings, the striking fact is that the entire Keynesian argument is based on purely microeconomic reasoning. The Keynesians themselves commit the fallacy that they see so prominent in the thinking of others. It is true that reduced consumer spending will tend to entail reduced investment spending by the consumers' goods producing firms. But one cannot generalise this fact.

A firm that is confronted to reduced revenue can only stay in business if it manages to reduce costs, that is, if it reduces its own spending on factors of production by renegotiating the contracts with the factor owners. Now, if only *one* firm sees its revenue plummet – for example, because of shifting consumer demand – then it will not as a rule be able to renegotiate, because the factor owners have other alternatives. Rather than accepting a significant price reduction and continue to serve their erstwhile customer, they will look to serve other customers. Their new customers will also pay them less than what they earned before, but the reduction is

---

18 Keynes (1936, p. 111). Another passage of similar flavour: "It follows that of two equal communities, having the same technique but different stocks of capital, the community with the smaller stocks of capital may be able for the time being to enjoy a higher standard of life than the community with the larger stock; though when the poorer community has caught up the rich – as, presumably, it eventually will – then both alike will suffer the fate of Midas." (p. 219)

19 In William Butos' terms (2006, p. 4): "Keynesian Macroeconomics is based on a kind of aggregation that requires students to see its various aggregates as *nonreducible* interacting entities."

likely to be lower than the one they would have had to accept in their old contract. Thus the firm will become unprofitable and go out of business. Yet the economy as a whole thrives as before – in fact, it thrives even more than before, because the partial reduction of factor prices makes investments profitable that were not profitable before.

Things are different when *all* firms experience plummeting monetary revenues, for example, as a consequence of a return from fiat money to a gold standard. Then people will have greater incentives to hoard the good commodity money, and therefore the monetary revenue of businesses will fall. However, this does *not* imply that all businesses will become unprofitable. It is precisely because *all* firms are concerned that all firms will have to reduce their spending on factors of production. The factor owners will therefore by and large have no alternative to turn to when their old firm sets out to renegotiate their contract, and thus they will tend to accept.

Hence, the Keynesian case for the paradox of savings only results from generalising a problem to which an individual firm can be confronted. It does not result if the economy as a whole is confronted to that problem. The Keynesian contention is therefore a clear case of the fallacy of composition. From a truly macroeconomic perspective, savings do not entail paradoxical results. They lead to greater wealth, both on the individual and on the aggregate level, just as Adam Smith had argued in 1776.[20]

III. Conclusion

Let us now conclude our discussion of the meaning of macroeconomics by highlighting two striking facts.

The first one is that the term "macroeconomics" was used first and predominantly by Keynesian economists. In their eyes it connoted a package of positivism, mercantilism, and the rejection of methodological individualism. This was the historical meaning of the term in the 1930s. Then followed a few decades of monetarist subversion that have partially altered the meaning of macroeconomics. The positivistic framework has been maintained, but the mercantilist content has been toned down, even though it is still strong. In the 1970s, Roger Garrison started joining the monetarist subversion project by adding an Austrian dimension.

In a way, this is a charming enterprise that might spell some confusion among Keynesians and monetarists. But it is also a dangerous undertaking because the confusion could spill over into the Austrian camp. Austrians should remain focused on learning and developing solid theory, and on writing sound history. Austrian macroeconomics might divert too much energy onto the sterile lands of mere modelling.

[20] Apparently, Milton Friedman had completely missed this crucial point. He thought the reason why he could not convince his Keynesian critics was that they reasoned from a Walrasian general-equilibrium point of view, while he perceived himself as a Marshallian. See Bordo and Schwartz (2003, p. 18).

The second striking fact that we have tried to underscore is that all sound economists could do without the term macroeconomics. The classical economists could do without it, and they were not ignorant of the specifically macroeconomic phenomena we have highlighted above. The same thing holds true for the Austrian economists. Menger, Böhm-Bawerk did not feel they needed a special label to brand their path-breaking studies of the economy as a whole. Mises and Rothbard actually rejected the label macroeconomics, and George Reisman too is adamantly opposed to using this word, tainted as it is by its historical association with Keynesian thought.

It has always been the watermark of Austrian economics to highlight the inter-relations within the economy, without being oblivious to the fact that some phenomena only appear in the economy as a whole. Using the word "macroeconomics" or even "Austrian macroeconomics" can therefore only have a pedagogic justification. It might be useful when dealing with a public, or with readers, who are steeped in the neoclassical distinction between microeconomics and macroeconomics. In contrast to neoclassical micro-economists, all Austrians are so-to-say macro-economists.

But nevertheless, all in all it is wrong-headed to adopt a fallacious terminology. Austrian economists are the present-day heirs of the classical economists. It is bad enough that the adjective "Austrian" is needed to describe what, after all, should be "economics" purely and simply. There is no need and no utility in using additional qualifiers that can only obscure this fact.

References

Block, Walter, 2010, "*Climate science research is rigged: but what about economics?*" *Etica & Politica*, vol. XII, no. 2 (2010), pp. 294−305.

Block, Walter, 2008, Christopher Westley and Alexandre Padilla, "*Internal vs. external explanations: a new perspective on the history of economic thought*" *Procesos De Mercado*, vol. V, no. 2 (2008), pp. 35-132.

Böhm-Bawerk, Eugen von, 1959, *Capital and Interest* (South Holland, ill.: Libertarian Press).

Bordo, Michael D. and Anna J. Schwartz, 2003, "*IS-LM and Monetarism*" (NBER working paper 9713).

Butos, William N., 2006, "Money, Prices, and Capital: An Austrian Approach to Macroeconomics" *Quarterly Journal of Austrian Economics*, vol. 9, no. 4, pp. 3-17.

Friedman, Milton (ed.), 1956, *Studies in the Quantity Theory of Money* (Chicago: University of Chicago Press).

Friedman, Milton, 1969, *The Optimum Quantity of Money* (Chicago: Aldine).

———, 1970, "*A Theoretical Framework for Monetary Analysis*" Journal of Political Economy, vol. 78, n° 2, pp. 193-238.

Frisch, Ragnar, 1933, "*Propagation Problems and Impulse Problems in Dynamic Economics,*" Economic Essays in Honor of Gustav Cassel (London: Allen & Unwin, 1933), pp. 171-205.

Heilbroner, Robert, 1990, "*After Communism*" New Yorker (10 Sept.), pp. 91f.

Horwitz, Steve, 2010, *Microfoundations of Macroeconomics* (London Routledge).

Hülsmann, Jörg Guido, 2001, "*Garrisonian Macroeconomics*" Quarterly Journal of Austrian Economics, vol. 4, no. 3, pp. 33-41.

———, 2003, "*Facts and Counterfactuals in Economic Law*" Journal of Libertarian Studies, vol. 17, no. 1, pp. 57-102.

———, 2007, *Mises: The Last Knight of Liberalism* (Auburn, Ala.: Mises Institute).

———, 2011, "*The Time Structure of Production Reconsidered*" (Université d'Angers: GRANEM working paper n° 2011-09-034).

Keynes, John M., 1936, *General Theory of Employment, Interest, and Money* (London: Macmillan).

Laffer, William G., 1990, "*Virtues and Deficiencies of Supply-Side Economics Viewed from an Austrian Perspective*" (manuscript, 28 September).

Lewis, Hunter, 2009, *Where Keynes Went Wrong* (Mount Jackson, VA: Axios Press).

Marx, Karl, *Das Kapital* (vol. 3, Berlin: Dietz, 1989[1894]).

McGee, Robert W. and Walter Block, 1991, "*Academic Tenure: A Law and Economics Analysis*" Harvard Journal of Law and Public Policy, Vol. 14, No. 2 (Spring), pp. 545-563.

Mises, Ludwig von, 1931. *Die Ursachen der Wirtschaftskrise* (Tübingen: Mohr).

———, *Human Action* (Auburn, Ala.: Mises Institute, 1998 [1949]).

———, *Ultimate Foundation of Economic Science* (Princeton, NJ: Van Nostrand, 1962).

Quesnay, François, 1991, "Tableau économique" in *Physiocratie* (Paris: Flammarion, [1759]), pp. 87-147.

Reisman, George, 1996, *Capitalism* (Ottawa, Ill.: Jameson Books,).

Ricardo, David, 1821, *Principles of Political Economy and Taxation* (3rd ed., London: J. Murray).

Roberts, Paul Craig, 1978, "*The Breakdown of the Keynesian Model*" National Affairs, n° 52 (Summer), pp. 20-33.

Rothbard, Murray N., 1993, *Man, Economy, and State* (3rd ed., Auburn, Ala.: Mises Institute).

Salin, Pascal, 1996, "*The Myth of the Income Effect*," Review of Austrian Economics.

Schumpeter, Joseph A., 1954, *History of Economic Analysis* (Oxford: Oxford University Press).

Thornton, Mark, 2004, "*Does Academic Publishing Pass the Real Market Test?*" Public Choice, vol. 120, pp. 41-61.

Walras, Léon, 1874 / 1877, *Éléments d'économie politique pure* (Paris : Guillaumin).

Vroey, Michel de, 2004, "*The History of Macroeconomics Viewed against the Background of the Marshall-Walras Divide*" History of Political Economy, vol. 36 (annual suppl. 2004), pp. 57-91.

OPTIMIZATION OF OPERATIONS IN DURRES PORT CONTAINER'S TERMINAL

Osman Metalla[1],
Andri Koxhaj[2],
Alma Stana[3]

Abstract

This paper gives an overall picture of various operations in Durres port containers terminal. Since this port is very new in containers handling operations, there are a number of issues to be addressed. Container terminal operators are providers of container handling services and with the shifting trend toward containerization of exports and imports, pressure on container terminal operators has increased in order to handle containers efficiently. During the recent years, the volume of general cargo that has been handled in this port has been gradually reduced and instead, a continuous and rapid growth of containerized cargoes has been observed. In order to have an effective and productive terminal, a number of factors need to be studied, because the higher the terminal productivity, the higher the difference between the revenues and the costs will be. The time in handling container ships is crucial; therefore it becomes necessary for any containers terminal to handle the containers in the most efficient manner where there is a smooth flow of containers in and out of terminal. Taking in account the space limitations of Durres port containers terminal, this is of vital importance. The operational activities of the terminal should be in such a way that it must be able to handle maximum no. of twenty foot equivalent unit (TEU's). For this purpose, it is necessary for the Durres port containers terminal to perform its activities in coordination with all other activities. This will result in a reduced waiting time for ships, less turnaround time for trucks, better space management, lower dwell time, customer satisfaction, and more TEU handled annually.

Key words: optimization, information management, terminal, RDIF, automated systems, safety, security

JEL Classification: L90

1. Introduction

Global container trade has steadily increased over the last two decades much faster than international trade. The average annual rate in thus period has been estimated to be around 8 - 10% (UNCTAD, 2009: ILS, 2010)

For this purpose in port and terminals industries, optimization of operations is not so much to develop the unmanned terminals – it is much more the installation of systems aimed at making jobs of terminal operations simpler. The aim of the

---

[1] PhD candidate, Member of Albanian Parliament.
[2] Prof. Dr. Andri Koxhaj Tirana University, Economic Faculty, E-mail: akoxhaj@gmail.com.
[3] PhD candidate, "Aleksander Moisiu" University, Durres.

optimization is to allow terminal operators to concentrate on the business of moving containers as quickly and efficiently as possible. Optimization does not necessarily mean the automatic monitoring and control of the terminal equipment. It can mean the installation of a radio data network between terminal's planning system and its yard based equipment, an investment which provides significant benefit to terminal operation. The purpose of terminal optimization is to reduce the time on every cycle and producing a safer environment without operational delays.

A container's terminal can be ideally divided into two areas, the quayside and the landside. The quay side is made up of berthing positions along the quay and the quay cranes that load unload the containers. The yard serves as a buffering for unloading and loading of containers. Although congestion issues are often disregarded, operations are usually slowed down because of overloaded areas in the yard and this is the case of Durres port as well, and the congestion spreads rapidly to the whole system.

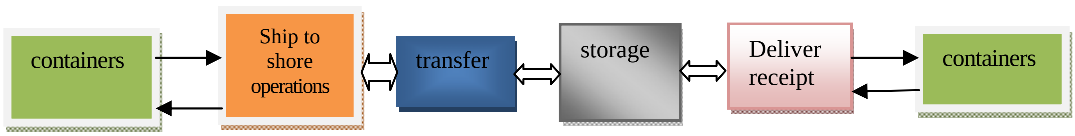


Fig 1. The operations in container's terminal

There are different solutions for effective and efficient operation. All these solutions differ from terminal to terminal based on the size of the terminal, number of yards, distance of the storage area from the quay side, etc.. There are system like, trailer positioning system (TPS) which provides an accurate positioning of the trailer in terminal (this is very effective in big terminals) so that to locate where container is stacking and through which path trailer is moving.

In order to increase the efficiency of a container terminal automation of the container terminal (ACT), establishing an advanced terminal infrastructure by equipping it with advanced equipments and high level of information network is very important in terminal operation. The cargo transferred by containers among worldwide trade using maritime transport is continuously increasing with an annual growth over 8%. In Western Europe and in other developed countries all over, there are existing containers terminals and new container terminals are being built. These terminals are fully automated and they are unmanned and controlled by advanced equipments.

In port and terminals industries, automation is not so much to develop the unmanned terminals – it is much more the installation of systems aimed at making jobs of terminal operations simpler. The aim of this system is to allow them to concentrate on the business of moving containers as quickly and efficiently as possible. Optimization and automation does not necessarily mean the automatic monitoring and control of the terminal equipment. It can mean the installation of a radio data network between terminals's planning system and its yard based equipment, an investment which provides significant benefit to terminal operation. The purpose of these systems is to reduce the time on every cycle and producing a safer environment without operational delays. There are different solutions for effective and efficient operation. All these solutions differ from terminal to terminal based on the size of the terminal, number of yards, distance of the storage area from the quay side, etc

The systematic choice of location and information exchange between equipment requires more exact rapid information networking than traditional container terminal in order to minimize the efficiency of container yard and safe handling and storing more containers at a time due to large size container ships. The introduction of automation is important for rapid handling of containers which are coming IN and OUT through gate. Building an information system is required as a mean of strategy which guarantee predominant differentiation as compare with others as present world faces the infinitive era of competition between the world's major ports. If we have to refer to the Durres Container Terminal, the labor force is drown from the local labor force available, and is paid based on the container moves. The containers are moved to the nearest location and not in all cases where the container was planned to be stored. This action may result in a second move of the container, thus increasing the handling time, and the associated cost per container move. In order to overcome this issue the system functional requirement where to:

- Identify automatically the carrying equipment,
- Identify the container move
- Display the exact move required for the given container to the operator
- Ensure that the container is placed in the planned location
- The system should allow a degree of flexibility in order to allow exceptions

2. Methodology

This paper will study the current situation of the Durres Port mainly focused on the operation of the Containers Terminal. With the strong tendency that the cargoes that are being transferred through Durres Port have to shift toward containerized cargoes, the Containers terminal plays an important role in the overall performance of Durres Port, therefore the effectiveness and the productivity of this terminal is important. On the core of this study, are the berth allocations and scheduling, quay crane allocation and scheduling management systems and the automated systems needed to support a better performance of the containers terminal, to make the Port of Durres more compatible, competitive in the region, in order to enlarge its commercial effects into larger hinterlands.

The study will focus on the following:

- On overview of the current automation technology in the Containers Terminals
- The existing situation of the Containers terminal, an overall picture,
- Durres Port container terminal equipments and their capacity,
- The container volume handled through Durres Port Containers Terminal and the traffic forecast
- The existing of radio data network or other information and management systems in the terminal

In this paper we will analyze two scenarios of operation of the terminal:

Scenario 1: the operations are carried out by terminal personnel; no software or other automation of the terminal is in place

Scenario 2: the terminal operations are automated and RFID is used.

The results of this paper will be based on the real situation in the Durres Port Containers Terminal and based on this situation some recommendations will be drown in order to contribute in improving the efficiency of the Containers Terminal

3. Equipment and technology of automation

Container terminal operations and their optimization have received increasing interest in the operations of the Durres port containers terminal. Even though a small terminal at present, this terminal regarding the traffic forecast is increasing rapidly, therefore optimization of the operations is vital for the competitiveness of the port and terminal.

In the quay it is very important to have an optimization of the operations through an integrated planning system. The realization of automatic operation is achieved based on operation commands from the computer on the crane to which the commands are transmitted from the planning computer in the container terminal via optical fiber cable.

- Kinds of Automatic operation

The automatic operation includes four types as described below:

- Loading: operation to load the containers in the yard on to the chassis
- Unloading: the operation to unload the containers on the chassis in the yard
- Marshalling: the operation to marshal the containers in the yard within the yard
- Move: the operation to move only empty spreader

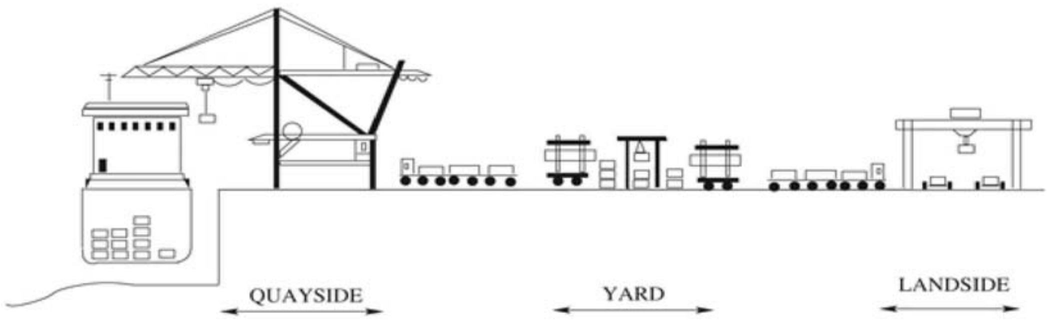


Fig2. Container terminal operations

Characteristics of the high speed automatic operation system: the objective of the automatic operation of this crane is to improve the container handling efficiency in the yard, and can be concluded to cope with natural disturbances (weather conditions like rain, fog, and wind) specific to outdoor environment. The concept of this concept of automation is “Fast”, “Accurate” and “Safe”.

3.1. RFID Technology in a Port

Radio Frequency Identification (RFID) has been successfully used in transportation and manufacturing since mid - 80sand its use is growing rapidly as costs come down and benefits are recognized. The primary advantage to RDIF in a port/terminal application is that it is an “automatic” data collection technology. That is, no operator intervention or action is required. Whereas other forms of data collection, whether bar codes or manual methods, depend on employees to record information, RDIF relieves them from this time consuming and error-prone process. Better utilization of employee’s time. In addition, security measures can be significantly enhanced through use of RFID. There are five areas where RFID can be effectively used in a port or cargo/containers terminal:

- Access control
- Container security
- Container identification and location
- Activity tracking, and
- Regulatory compliance.

Some of these applications offer benefits to the terminal/port operator, either directly or as added services for shippers. Other benefits must be seen more as a means of simplifying compliance with increasing governmental security regulations and record keeping requirements.

4. Current situation in Durres Port Container Handling Terminal

Durres Port Authority (DPA) in order to have a clear picture of the exploitation rate in port, has implemented the separation of terminals and has improved their management. Undertaking a number of measures for the ristructuring and development of the infrastructure and equipments, the port has had some limitations regarding handling capacity. In order to face this, DPA has implemented contemporaneous management methods making it possible to keep a balance on the berth occupancy rate in order not create congestions in the port. To ilustrate this, we have calculated some indicators of the operational performance for the general cargo and bulk terminal.

Durres port has a short history in handling containers. Until 1996, only 20 feet containers could be handled in this port due to the lack of proper infrastructure. Actually Durres port Authority is managing the new containers terminal which is capable of handling all types of containers from 10 – 45 ft.

The development of the containers terminal in wharfs 6 & 7 made it possible to establish new markets for the Durres port and has dramatically reduced the handling of general cargo. Container ships are being handled in wharfs 6 & 7 which have an overall length of 465ml and a backup area for storing containers of 56.000m^2.

In order to support the containers terminal in Durres Port on loading unloading the container ships, there are available a number of container handling equipments like reach stacker, forklifts of high tonnage, tugs and trailers, etc

It is forecasted that the containers trafic will be in a continuous increasement, consequently the efficient functioning of the terminal as well as the new investments in procuring the handling equipments of the containers is important. Actually in the port there are three regular liners from and to Kastellon – Spania, Pireaus Greece, and Rijeka Croatia making it possible to have container ships almost everyday in the terminal.

5. Terminal Equipments and their capacities

Containers are handled in two areas of the port:

1. The containers terminal (wharfs 6 & 7), loading/unloading from ships on the quay and vice versa is done by means of a portable crane with a lifting capacity of 120 Tons equipped with a hidraulic spreader.

2. In the wharf No. 9 (ferry boat terminal) where the containers wich are transported by Ro/Ro vessels are handled by means of tugmaster, trailers and other equipments.

In order to handle 20 ft and 40 ft containers, the port has its own equipment as follows:

- A portable crane with lifting capacity of 120 Tons,
- Two reach stackers of type "MI-Jack,, with a lifting capacity of 40 Tons,
- Two forklifts of type "Fantuzzi ,, with a lifting capacity of 35 Tons
- One forklift of type "MI-Jack,, with a lifting capacity of 12 Tons
- Ten tractors and 20 trailers for the horisontal handling of containers up to 40 ft.

The containers terminal in the Port of Durres is in a continuous development and future investments are planned in procuring new equipment and also in improving the existing infrastructure, thus creating more storage area and better handling capacities for the terminal in order to manage the increasing containers trafic.

6. The existing of radio data network or other information and management systems in the Durres Port Containers Terminal.

The continues growth in container traffic in the port of Durres appeals for a better management of the terminal operations, a better and more efficient usage of the yard area, thus making the port and the terminal more attractive for the port users and more competitive. Durres port has undergone a number of reforms being those legislative reforms, infrastructural or structural reforms. Since the information is more and more important in port industry, the port has increased its capacities to ensure a safe and secure working environment in order to safely and efficiently monitor and manage the maritime traffic, raise the level of the safety of the life at sea, improve the monitoring of the terminal in order to prevent ships generate pollution in the terminal area alongside the wharf, and facilitating more efficient maritime transport services. The Port management Information system in Durres Port provides these benefits:

- Safety – Through the VTMS the port Authorities and Harbor Master Office monitor the maritime traffic in arrival and departure from the Port in order to avoid any maritime incidents in the maritime area under its jurisdiction.
- Security – a full insight to available information on ship's history and cargo, in accordance with ISPS rules,
- Efficiency – ensures that all resources to handle ships arrival are available in time for the shortest possible turnaround. This includes resources like berths, pilots, stevedores and linesmen.
- Sustainability- taking care of port environment. One of the things this entails, is checking ship's manifests for dangerous cargoes and making sure that ships with dangerous cargo are well separated from other ships.

Access control is done through RDIF. The use of RDIF identification cards, either contactless smart cards or proximity RDIF tags with a very limited range can not only store access information such as shift, job functions allowable vehicle access, etc, but can also contain biometric information such as photograph. Equipping tugs and other equipment with RDIF tags is becoming increasingly common in fleet and yard management operations. Readers placed at gates and other access points can be used to enable access or egress as well to record exact time at which a particular truck and container entered or left the terminal.

7. The analysis of terminal optimization

Refering to the figures of the container handled through Durres Containers Terminal, in 2009 has had a high rate of growth up to 140% compared to 2005. Certainly that the Global Crises has had its impact in the Albanian market. It is important to underline that while in the european countries all ports have suffered a negative growth of almost 15%, in Durres port the growth has been positive up to 5%.

In order to calculate the berth occupancy rate (BOR) for the container terminal we can use the following formula:

BOR=[∑service time in port (hrs x meters used)/∑available hoursx meters] x 100

To calculate the labour utilizaton rate (LUR) we can use the following formula:

LUR= [∑service time in port (in hrs) x workers/∑available hours x workers]x100

Fig 3. Berth occupancy rate in Durres port terminals

Autoriteti Portual Durrës
DURRES PORT AUTHORITY

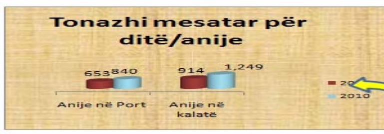
Drejtoria e Shërbimeve Operacionale
Terminali Lindor dhe Perendimor

Vjetore 2009 / 2010

Të dhëna të përgjithshme	2009	2010
Nr. kalatave	8	7
Gjatesia e kalatave	1,324	1,146
Anije të përpunuara	692	560
Tonazhi mesatar per Anije	2,389	3,049
Tonazh i përpunuar	1,653,472	1,707,343
Orë qëndrimi në Port	60,768	48,768
Ditë qëndrimi në Port	2,532	2,032
Orë qëndrimi në kalatë	43,416	32,808
Ditë qëndrimi në kalatë	1,809	1,367
Ditë muaji	366	365

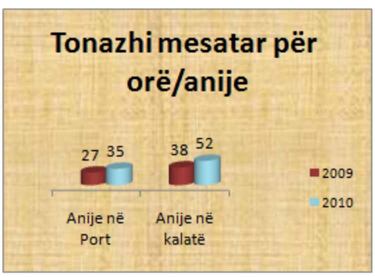
Indikatoret operacional

1	Mesatarja e ciklit të anijes			2009	2010	Krahasimi
	Mesatarja	Anijeve në Port	orë	88	87	përmirësim i kohës me 1 orë
		Anijeve në kalatë	orë	63	59	përmirësim i kohës me 4 orë

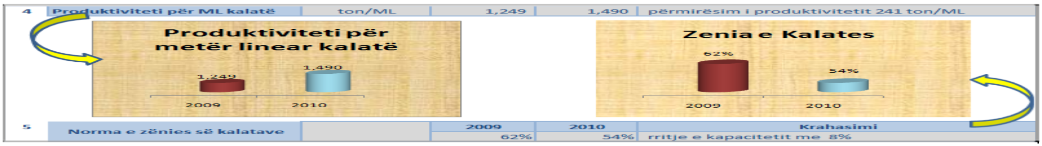


2. a	Tonazhi mesatar për ditë anije			2009	2010	Krahasimi
	Mesatarja	Anije në Port	ton/ditë	653	840	përmirësim i produktivitetit 187 ton/ditë
		Anije në kalatë	ton/ditë	914	1,249	përmirësim i produktivitetit 335 ton/ditë

2.b	Tonazhi mesatar për orë anije			2009	2010	Krahasimi
	Mesatarja	Anije në Port	ton/orë	27	35	përmirësim i produktivitetit 8 ton/orë
		Anije në kalatë	ton/orë	38	52	përmirësim i produktivitetit 14 ton/orë



3	Produktiviteti i kalatës	ton/kalatë	2009	2010	Krahasimi
			206,684	243,906	përmirësim produktivitetit me 37,222 ton/kala



Source: Durres Port Authority

According to the data provided by DPA, it can be noted that at the beggining of the terminal operation in 2002 when the number of cnts handled was less than 1000 TEU, the waiting time, berth occupancy was very high, making the terminal not competitive. The LUR was very low therefore the terminal was not efficient and effecitve. In 2010 comparing to 2009 (fig3) it can be seen that the BOR was more effective, thus improving the terminal performance. It can be noted from fig 3 that berth occupancy rate for a vessel in 2010 was cut down to almost 25% as a result of the improvement of port peformance indicators. The improvement of port performance indicators was as a result of the port automation of operations.

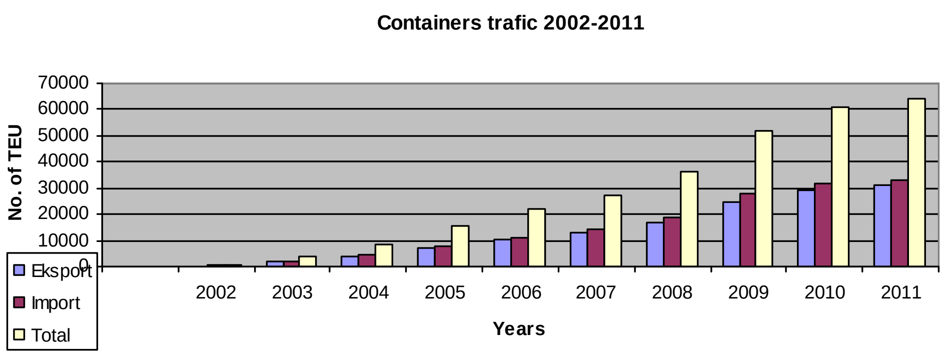
Table 1. The total tonnage and number of TEU handled in Durres Port Containers Terminal during period 2005-2010

Years	Export			Volume in Tonne Export	Import			Volume in Tonne Import	Total number of Boxes	TEU Total	Volume in Tonne
	Number		TEU		Number		TEU				
	20"	40"			20"	40"					
2005	4,482	1,457	7,396	16,970	4,640	1,625	7,890	130,471	12,204	15,286	147,441
2006	5,797	2,445	10,687	26,443	5,898	2,647	11,192	188,178	16,787	21,879	214,621
2007	8,054	3,965	15,984	69,423	8,647	4,248	17,143	287,751	24,914	33,127	357,174
2008	11,450	5,405	22,260	157,185	13,518	5,510	24,538	424,942	35,883	46,798	582,127
2009	17,714	8,356	34,426	293,631	16,782	8,707	34,196	504,125	51,559	68,622	797,756
2010	18,040	8,820	35,680	460,823	17,664	9,135	35,934	507,678	53,659	71,614	968,501
2011	8,376	5,632	19,640	215,792	8,486	5,167	18,820	277,058	27,661	38,460	492,850

V.O. Year 2011 is 6/Months

Source: APD

Chart 3. Containers trafic in Durres Port during period 2002 - 2011



As it can be seen from this chart there is a strong container traffic growth between 2008 and 2010 and in the last year we realize a lighter growth. The slow of the growth is as the result of the global crises effects in the Albanian market.

8. Conclusion and Recommendations

- It can be concluded that the optimization of the operations in container terminal is important, especially in the case of Durres where the terminal area is very limited and terminal expansion possibilities are restricted
- The container terminal management personnel should create a culture of performance measurement which will serve as the basis for further development of the terminal efficiency
- DPA, should get the port performance indicators right and periodically measure them in order to keep the port performance in satisfied level.
- It is demonstrated that container terminal In Durres port even though is a modest terminal, yet it need to be equipped with the automation of the operations.
- The three key variables of performance assessment, namely throughput, space utilization, and equipment utilization can improve significantly as a result of implementing appropriately selected automation technologies for container handling and storage operations at maritime terminals.

References

Durres Port Authority

DOWT, T,J, and Leschine T.M (1990), "Container Terminal Productivity a Perspective".

B.Beskownic, 2008, Measuring and increasing the productivity model on maritime Pomostro, god. 22, b r.2, str 171 – 283

Kurt J Nagle, 2011, "Challenges, spark innovation, thereby enhancing efficiency", APAA Seaports Magazine,

Vitsounis TH Port performance measurement in practice 2010

Paul Scott Abbot, 2011, "technology delivers productivity in cost effective, eco friendly way", APAA Seaprts Magazine

Vacca I, 2010, Salani M optimization of operations in container terminals

Prof. Jens Froese, 2011, "Seaport integration and networking – An European Case study", APAA Seaports magazine

T. Anupama, I Krishna, K. Deepa, 2011, "Automation in leading container units".

"Preliminary Assessment $ Feasibility Design for the establishment of the VTMIS" Louis Berger , 2011

A. Vaziri "Automated technologies in Maritime Container Terminals

MAIN TRENDS OF TRADE FLOWS BETWEEN ROMANIA AND CHINA IN THE LAST DECADE

Sarmiza Pencea PhD[1],
Iulia Monica Oehler-Şincai PhD[2]

Abstract

In this paper, we explore the trade flows between Romania and China, in the framework of the bilateral EU-Chinese relationship.

In the fist chapter, we highlight that, throughout decades, Romania and China have built a strong bilateral relationship, founded on friendship and mutual trust, which passed the test of time and change. After 2007, the year when Romania joined the EU, the EU-China strategic partnership became the main cooperation framework for Romania – China bilateral links.

The second and the third chapters look at the recent trends of Romania-China trade in goods and services in the framework of the larger EU-China strategic partnership, using the statistical data published by Eurostat, DG Trade of the European Commission and by the national authorities of the two countries.

In our concluding remarks we underline that, although the Romanian and Chinese economies reveal complementarities able to generate considerable opportunities for trade, the bilateral trade relations could not be developed yet to their full potential. Nevertheless, the affirmed political will of both countries to deepen and extend their economic relations might give a new impetus to the bilateral trade flows, as it might stimulate cooperation in many fields.

Keywords: strategic partnership, trade, China, EU-27, Romania.

JEL classification: F10, F14.

1. Introduction: Milestones in the history of the Romanian-Chinese Relationship

Throughout decades, Romania and China have built a strong bilateral relationship founded on friendship and mutual trust.

The first high-level official contacts were established in 1880, when Carol I, king of Romania, sent a letter to the Chinese Emperor to inform him about Romania becoming a free, sovereign and independent state and to express his hope that *"good and warm friendship relations"* were established between the two countries. The reply in behalf of emperor Guangxu, who ruled over China, came from his imperial highness Prince Gong, the emperor's uncle, who sent to the Romanian king Carol I congratulations and warm wishes of prosperity and welfare for the country and for

[1] *Senior Researcher I, Institute for World Economy, Romanian Academy,* E-mail: pen_sar@yahoo.com.
[2] *Senior Researcher III, Institute for World Economy, Romanian Academy*

the people of Romania. In diplomatic language, that was the moment when the two countries officially recognized each other.[3]

Another milestone in the history of the relationship of the two countries was October the 1st, 1949, when the People's Republic of China was proclaimed. Romania was the third country in the world to officially recognize China and to establish bilateral diplomatic relations with it.

If initially the two countries had little knowledge about each other, during the following 40 years (1949-1989) their bilateral relationship evolved exceptionally well, in spite of several objective discouraging factors such as the great geographic distance that separated them and the considerable contrasts in terms of their size, historic evolution, languages, traditions, mentalities and views on life. Both consciously-built and fostered by the international context, the Chinese-Romanian political relations improved tremendously and favoured the development of their bilateral commercial exchanges and economic cooperation in various fields.

Romania became China's most important partner in Europe. During the '60s and the '70s, when China had very limited access to foreign technology, Romania, which had started industrialization earlier and had assimilated Western technologies, was able to take active part in the industrial modernization of China, becoming the second partner country - after the Soviet Union - to contribute to this process, especially to the development of the Chinese heavy industry and power engineering. Many Chinese students were educated in Romania in various fields, including oil and gas engineering, while some of the best Chinese universities which prepare at present experts for the oil and gas industry, were initiated with the help of Romanian teachers. Romania exported to China equipment and machinery, turn-key plants and transferred know-how for modern industry and agriculture development.[4] Also in other fields, as for instance in sports, some of the first football, sword or gymnastics coaches came from Romania.[5]

On the other hand, against the background of the USSR-China tensions, in the context of the cold war and *"… in the context of a more independent foreign policy, Romania acted as a mediator between PR of China and the USSR in the '60s, and between the USA and PR of China, in the '70s."*[6] Nevertheless, at least partially, the independence exhibited within the communist bloc by a small country like Romania was possible, at that time, only due to its known friendship with China. To name just a few of the benefits Romania enjoyed, in its turn, from its privileged relationship with China, it is worth

3 **Budura, Ioan Romulus** (Former Romanian Ambassador in China, coordinator) (2005), *Relațiile româno-chineze 1880-1974*, Documente, MAE, Arhivele Naționale, București.

4 **Ghelmegeanu, Gabriel** (President of Romania-China Chamber of Commerce) – Dezbaterile RL, Romania Liberă, 18.08.2011, Sabina Fati, www.romanialibera.ro.

5 **Isticioaia-Budura, Viorel** (Former Romanian Ambassador in China) – *Cum și-a uitat Romania „prietenul chinez"*- interviu în Romania Libera, 9.08.2010, Sabina Fati, www.romanialibera.ro şi *Relațiile cu China - o șansă a globalizării* – interviu în Adevarul, 16.08.2010, Ovidiu Nahoi, www.adevarul.ro.

6 **Valer Marian** (Romanian senator) – De ce este ocolită România de China, Report in the Romanian Parliament, 2010.

mentioning that in 1968 Romania was protected by China against a USSR invasion, in 1970, when it was devastated by floods, Romania was granted by China the highest non-conditional, irredeemable financial aid it ever received from another country (USD 25 million) and, also, it was at times given low-interest or flat loans[7].

After 1989, the year when the communist system fell apart in Eastern Europe, the sound nature of the principles which made the backbone of the Romania-China relations, the fact that the two countries had exceptionally friendly bilateral links, allowed for the smooth continuation of their relationship, in spite of the tremendous changes that took place in the world economy as a whole, in each of the two countries and in their respective places in the new global environment. While both countries entered complex and sometimes painful transition processes, the paths they chose were completely different. Romania opted for building a democratic society and a capitalist economy and, to this end, it implemented a "shock therapy" type of reform, focussed on liberalization and privatization, which significantly changed its economic structure. Its main goal was to adjust to and to integrate into the European Union. On the other hand, China chose to keep its political system and many of the institutions virtually unchanged, while focussing pragmatically on gradual economic reform and building a "market economy with Chinese characteristics". During the last almost 33 years, China's development model, driven by investments and exports, generated impressive results in terms of modernization, development and growth, poverty reduction, improved living standards and the country's repositioning in the global economy.

The special traditional friendship between Romania and China passed the test of time and change and, in 2004, on the occasion of President Hu Jintao's visit to Romania, the bilateral relationship between the two countries was upgraded to the "*all-round friendly cooperative partnership*" statute, eloquent for the privileged nature of the links between the two countries. But, although the political relations remained very good after 1989, the economic exchanges and cooperation suffered a lot during the '90s, reaching a record low in 1999, when the bilateral trade volume was only Euro 0.170 billion (as compared to the previous period record high of USD 1.095 billion, reached in 1979). After the year 2000, anyway, the trend changed and for the next decade the bilateral trade was on the rise, although unbalanced and still not reaching its full potential.

After 2007, January the 1st, when it joined the European Union, Romania adopted and implemented the EU Common Foreign Trade Policy, opening the Romanian market for free trade with all the other Member States, but also with many third countries which had been partners in the Free Trade Agreements (FTAs) signed by the EU and the General System of Preferences (GSP), with China among its beneficiaries. The impact on the Romanian economy was very strong, with a sudden

[7] **Buzatu, Ion** – Istoria relațiilor României cu China din cele mai vechi timpuri până în zille noastre. Dansul în lume dintre cea de a doua fiică a Romei - Luomaniya și Împărăția Dragonului Galben – Zhuongguo, Meteor Press, ediție revizuită și adăugită, 2004.

raise of imports and trade deficit from the very first months of membership,[8] and Chinese goods becoming a major challenge for the local products and markets. Unfortunately, Romania couldn't sufficiently capitalize on the opportunities to increase more its own exports, and particularly its exports to China remained still too low and in need for an important boost.

As a member of the EU, Romania benefits, besides the framework of the bilateral agreement with China, from the Strategic Partnership framework between China and the EU. In this context, the evolution of China-Romania exchanges clearly reveal that there still are many benefits untapped and many opportunities not turned to good account, both in their bilateral trade and in investments.

2. The Largely Untapped Potential of the Romanian-Chinese Economic Relationship – A View from the Standpoint of Trade in Goods

After three decades of economic reform and development, China has emerged as the world's second-largest economy and the number one exporter of goods, as well as an increasingly important political power. According to the Directorate General for Trade of the European Commission (DG Trade), China is *"the single most important challenge for the EU trade policy"*.

EU-China trade has increased dramatically in recent years. As regards trade in goods, China is now the EU's second trading partner, after the USA, and is by far the EU's main source of imports. The European Union is, in its turn, China's most important trading partner.

Outside the EU, in 2010, China was Romania's eighth most important export market and the first import source. Nevertheless, taking into consideration all of Romania's trade partners, China ranked, in the same year, merely the 22nd among its main export destinations and the 5th as an import source, while Romania was for China only a marginal trade partner.

2.1. Recent EU - China Trade Flows - A Brief Analysis

Excluding the intra-community trade, EU, as an entity, remains the main global exporter and importer of goods, with a 15% share of the total world exports and 16.5% of its imports in 2010.[9]

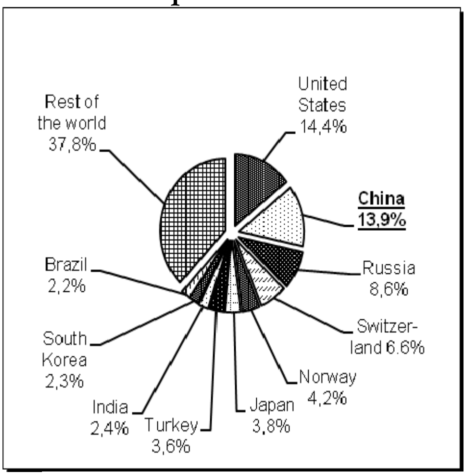
China is a key trade partner for the EU. It is its second export market (accounting for 8.4% of the total 2010 extra-EU export value) and its main import source (18.8% of the total 2010 extra-EU import value). At the same time, the EU is both the first export and the first import partner of China, accounting for 20.1% and 13.2%, respectively, in its export and import trade flows.

[8] INSSE Romania – Buletin Statistic Lunar no.2/2007.

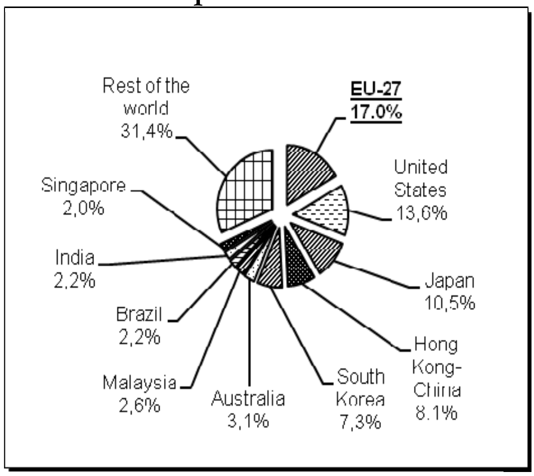
[9] Source: WTO, 2011.

Chart 1: The main trade partners of the EU and China in 2010* – trade in goods (%)

Trade partners of the EU



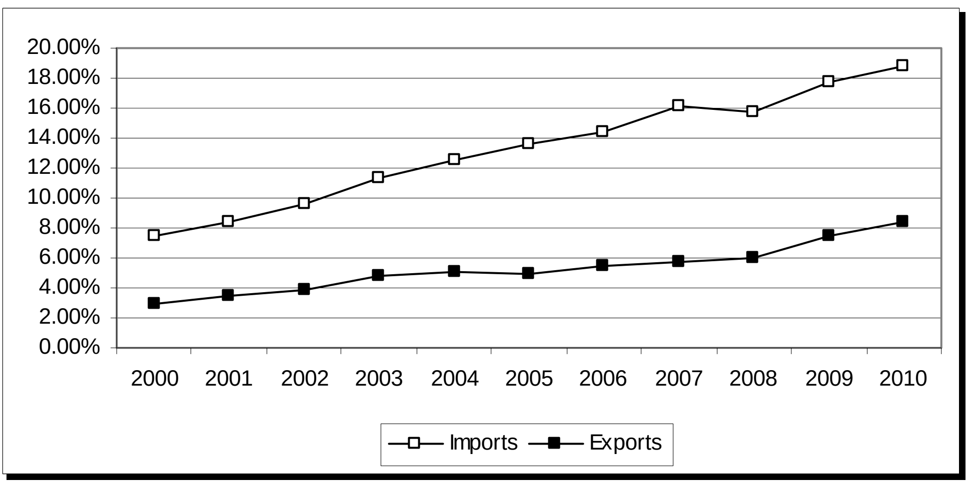
Trade partners of China



Note: * taking into consideration the cumulative value of exports and imports.
Source: DG Trade (2011).

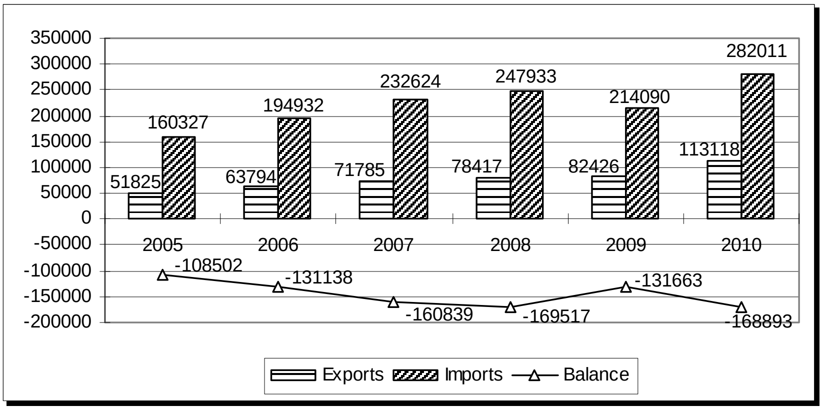
Subsequent to China's accession to the WTO, its share in the EU extra-community trade increased quickly. As China's share in the EU imports grew more than its share in the EU exports, the bilateral trade deficit deepened.

Chart 2: China's share in the EU exports and imports, extra-community trade, 2000-2010 (%)



Source: DG Trade (2011) and the European Commission (2010).

Chart 3: EU-China trade during 2005-2010 (Euro, million)

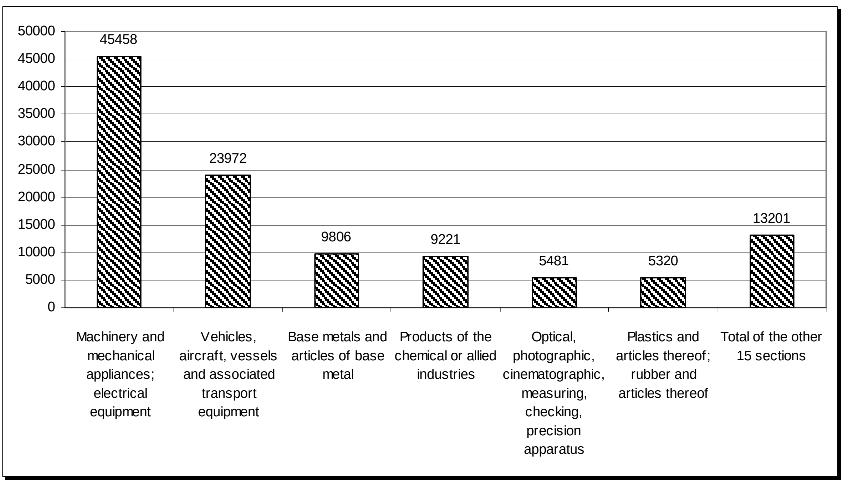


Source: DG Trade (2011).

The bulk of the EU-China trade structure is made of manufactured products. In 2010 these goods accounted for over 87% of the EU exports to China and for 96.5% of its imports from this country. Considering the sections of the combined nomenclature (CN), within the manufactured products, the section *machinery and mechanical appliances and electrical equipment* held shares exceeding 40% in both the EU exports to, and imports from China (40.2% and 47.7%, respectively).

The six CN sections with the largest shares in the EU exports to China were the following: *machinery and mechanical appliances and electrical equipment* (40.2%), *vehicles, aircraft, vessels and associated transport equipment* (21.2%), *base metals and articles of base metal* (8.7%), *products of the chemical or allied industries* (8.2%), *optical, photographic and other precision apparatus* (4.8%) and *plastics, rubber and articles thereof* (4.7%).

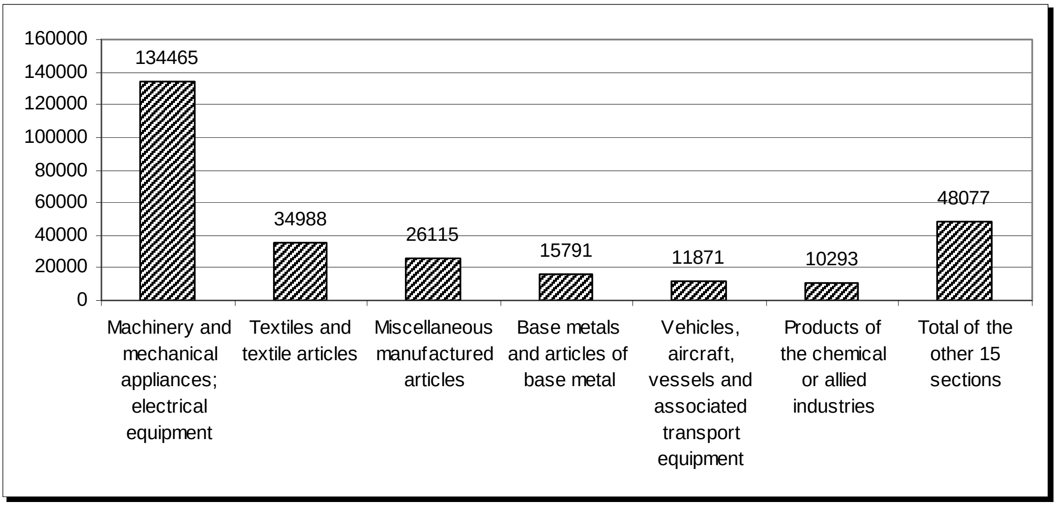
Chart 4: Structure of the EU exports to China, breakdown by the main product sections of the CN, the Harmonized System, 2010 (Euro, million)



Source: DG Trade (2011).

The prevailing goods in the 2010 EU imports from China were: *machinery and mechanical appliances and electrical equipment* (47.7% of the total), *textiles and textile articles* (12.4%), followed at distance by *miscellaneous manufactured articles* (9.3%), *base metals and articles of base metal* (5.6%), *vehicles, aircraft, vessels and associated transport equipment* (4.2%) and *products of the chemical or allied industries* (3.6%). These six CN sections taken together accounted for 82.8% of the overall EU imports from China, revealing that the import trade structure was slightly less concentrated than that of the export trade, where the first six sections accounted for 87.8% of the total EU exports.

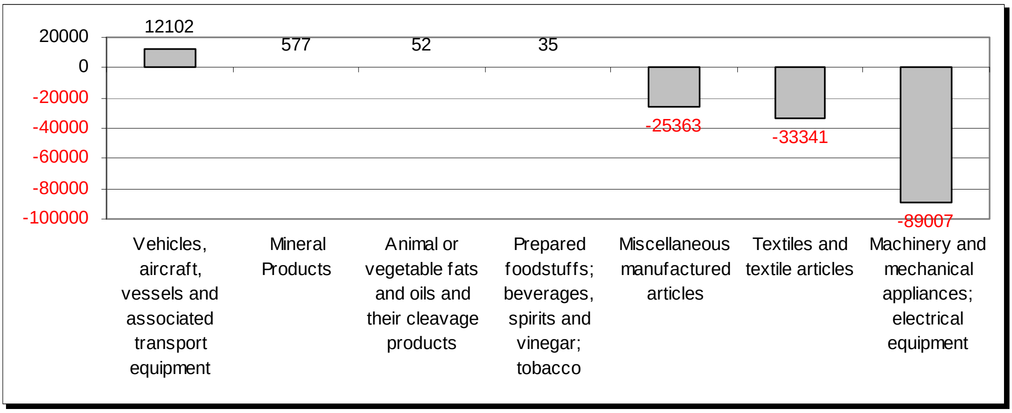
Chart 5: Structure of the EU imports from China, breakdown by the main product sections of the CN, the Harmonized System, 2010 (Euro, million)



Source: DG Trade (2011).

The three most important sections responsible for the 2010 EU trade deficit with China were *machinery and mechanical appliances and electrical equipment* (Euro -89 billion), *textiles and textile articles* (Euro -33.3 billion) and *miscellaneous manufactured articles* (Euro -25.4 billion). But, in fact, out of the 21 sections of the CN, the EU recorded a trade surplus only in the case of four sections and, among these ones, with the exception of the section *vehicles, aircraft, vessels and associated transport equipment*, which recorded a consistent surplus of Euro 12.1 billion, all the others derived quite modest surpluses (*mineral products*: Euro 577 million, *animal or vegetable fats and oils and their cleavage products*: Euro 52 million and *prepared foodstuffs, beverages, spirits and vinegar and tobacco*: Euro 35 million).

Chart 6: EU-China trade: Sections with a trade surplus and sections with trade deficits in excess of Euro 10 billion (Euro, million)



Source: DG Trade (2011).

2.2. A Brief Account of Recent Trade Flows between Romania and China

- **The bilateral trade values and the trade balance**

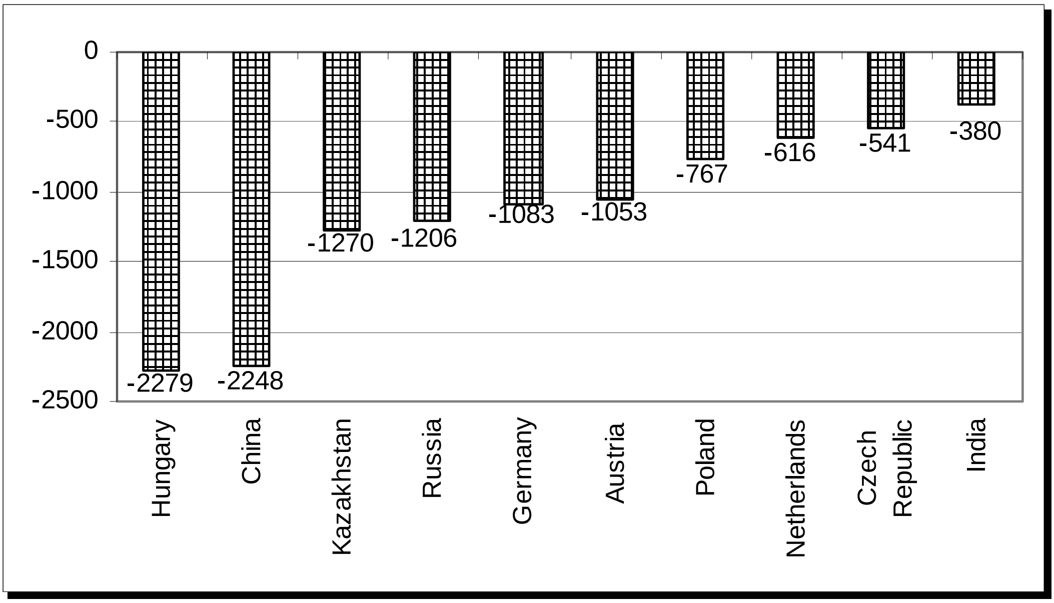
The role played by Romania in the extra-EU trade is marginal. In 2010, its share in the extra-EU trade flows was under 1%, both in exports (0.8%) and in imports (0.9%). Considering only EU's trade relations with China, Romania's share in the EU exports to this country was even smaller, of just 0.3%, while its share in the EU imports from China was 0.9%.

In 2010, the export value of Romania outside the EU was about Euro 10.4 billion, accounting for 27.8% of the total Romanian exports, while the import value outside the EU amounted to Euro 12.9 billion, or 27.5% of the total. These export and import values denote increases of 38.7% and 22.9%, respectively, over the previous year.

Taking into account the cumulative value of exports and imports, Romania's trade with non-EU countries was dominated by *Turkey* (Euro 4.28 billion, or 18% of the total), *Russia and China* (almost equal, with Euro 2.87 billion and Euro 2.86 billion, respectively, or about 12% of the total, each). Other trade partners with bilateral flows in excess of Euro 1 billion were: *Kazakhstan* (Euro 1.44 billion), the *USA* (Euro 1.12 billion) and *Ukraine* (Euro 1.08 billion). The Romanian total trade (export plus import) with Ukraine, Turkey, Russia, China and the USA recorded sharp yearly increases in 2010 (over 80%, 48%, 45%, 35% and 31%, respectively), while the Romania-Kazakhstan trade stagnated.

Romania's trade deficit with its partners outside the EU diminished by 17% in 2010 to Euro 2.5 billion, from almost Euro 3 billion in 2009. *The largest deficits* with non-EU partners were recorded with *China* (Euro 2.2 billion), *Kazakhstan (*Euro 1.3 billion) *and the Russian Federation* (Euro 1.2 billion). The deficit with China and Russia increased (with almost Euro 560 million and, Euro 218 million, respectively), while the deficits recorded with Ukraine and the USA remained flat, at relatively low levels (Euro 11.3 million and Euro 9 million, respectively). The trade balance with Turkey recorded a surplus of Euro 842 million.

Chart 7: Romania's largest trade deficits with its main trading partners in 2010 (Euro million)

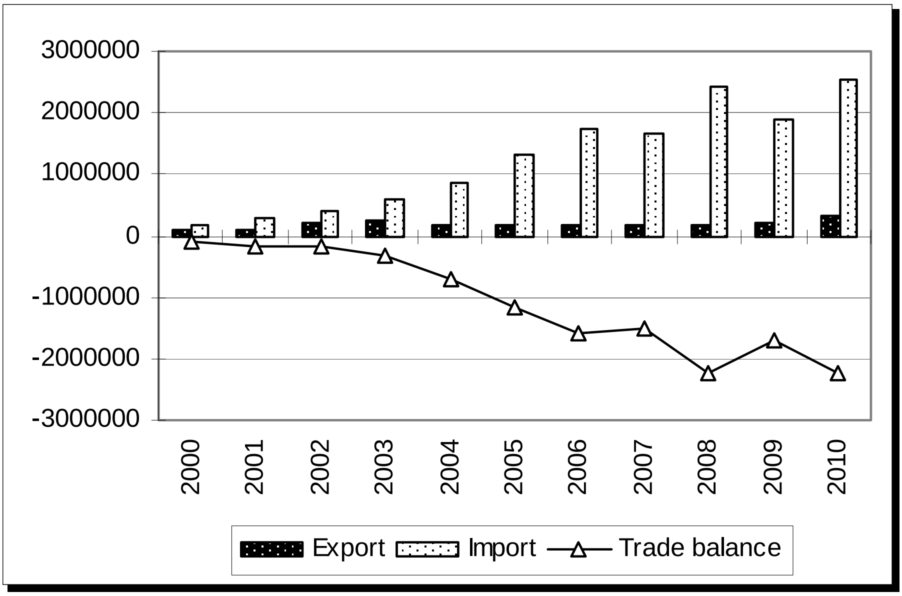


Source: Ministry of Economy, Trade and Business Environment of Romania and the Romanian Centre for Foreign Trade and Investment Promotion.

In 2010 the value of the Romanian exports to China amounted to Euro 308.78 million, while that of the imports was eight times higher, reaching Euro 2.56 billion. China accounted for only 0.83% of Romania's exports and for 5.46% of its total imports. The growing gap between the import and export values with China created an increasing trade deficit for Romania, which reached over Euro 2.2 billion in 2010. Therefore, China ranked second among Romania's trading partners in terms of the largest trade deficits induced, surpassed only by Hungary, and only marginally. It is interesting to note here that the huge trade deficit with Hungary, which is the highest recorded in the Romanian foreign trade (see Chart 7), was mainly due to Romanian imports of Chinese goods from this neighbouring country (almost Euro 2.0 billion). This implies that the Chinese goods penetration and their real share of Romanian market are higher that shown by statistics.

- **The bilateral trade flows**

Chart 8: Trade flows between Romania and China , 2000-2010 (Euro, thousand)



Source: Ministry of Economy, Trade and Business Environment of Romania and the Romanian Centre for Foreign Trade and Investment Promotion.

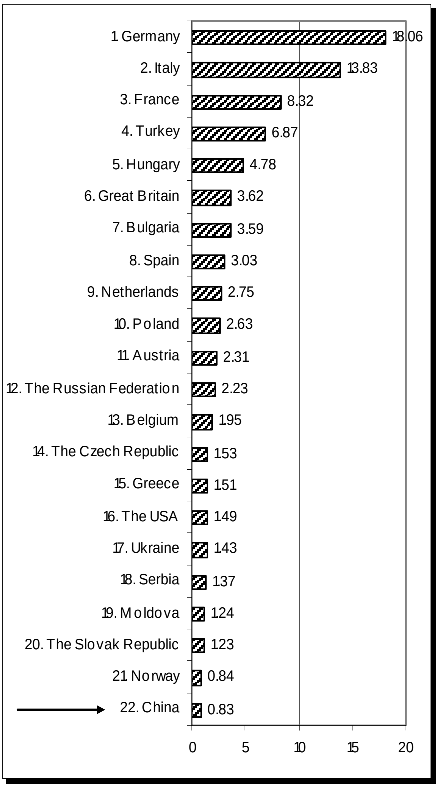
The *main destinations of the Romanian exports* (taking into consideration both the intra and extra community trade flows) were: Germany (18.06%), Italy (13.83%), France (8.32%), Turkey (6.87%), Hungary (4.78%), UK (3.62%), Bulgaria (3.59%), Spain (3.03%), Netherlands (2.75%) and Poland (2.63%). These countries held together a share of over 67% of the Romanian exports.

China was the 22nd destination of the Romanian exports (Euro 309 million), and the *8th outside the EU*, after Turkey, the Russian Federation, the USA, Ukraine, Serbia, Moldova and Norway. Here, also, we must highlight that, due to the underdeveloped direct relations between Romanian and Chinese companies, just like in the case of some Chinese exports which were channelled to Romania through intermediary countries, also many Romanian goods reached China through third parties. As such, the Romanian wood was re-sold to China by Arab traders, Romanian ships were re-sold to China by Dutch companies, Romanian machine-tools reached China through German societies and Romanian garments got there through Italian firms.[10] This circumstance clearly reveals inefficiencies in the direct bilateral connections and trade.

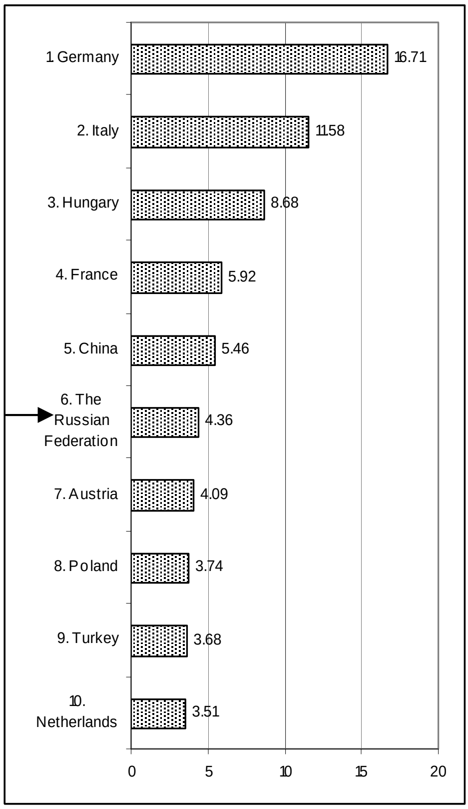
[10] http://www.ziare.com/economie/crestere-economica/cum-poate-importa-romania-crestere-economica-din-china-1040461

Chart 9: Romania's main export destinations and import sources in 2010 (in %)

Main export partners



Main import partners



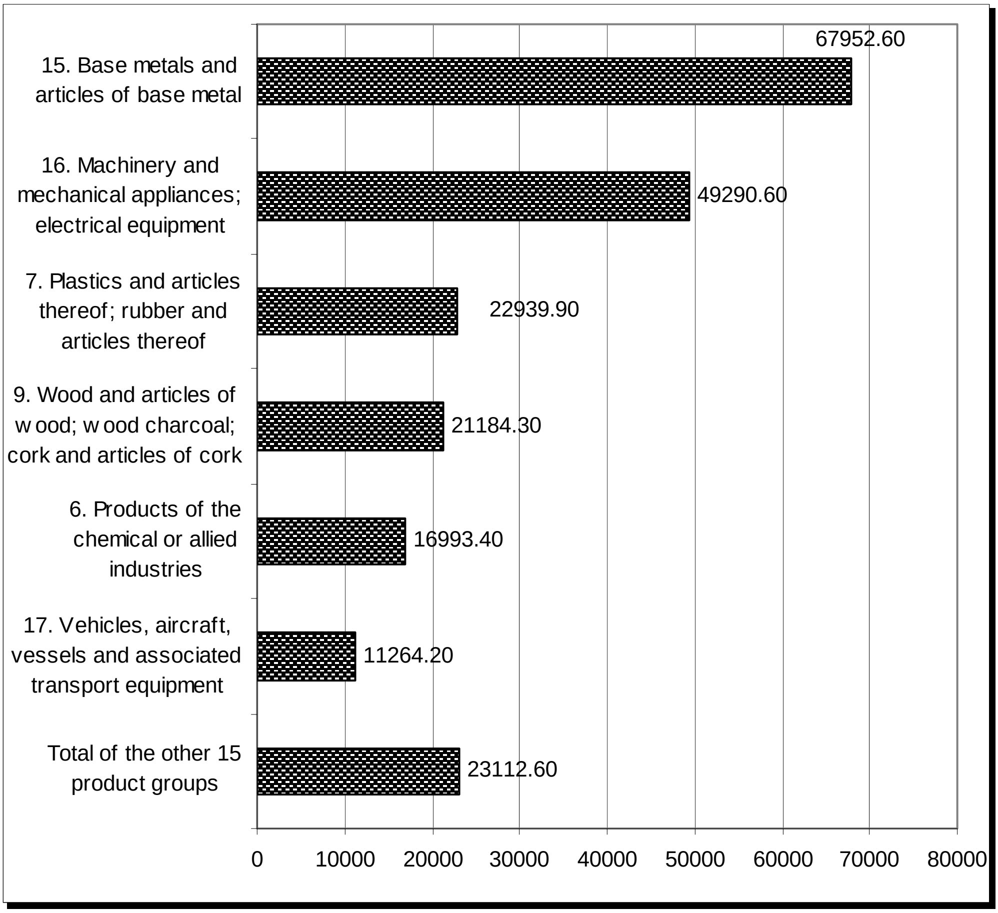
Source: Ministry of Economy, Trade and Business Environment of Romania and Romanian Centre for Foreign Trade and Investment Promotion.

The *main sources of Romania's imports* in 2010 were: Germany (16.71%), Italy (11.58%), Hungary (8.68%), France (5.92%), *China* (5.46%), the Russian Federation (4.36%), Austria (4.09%), Poland (3.74%), Turkey (3.68%) and Netherlands (3.51%). These countries cumulated about 68% of Romania's total imports. China maintained its position as Romania's main source of imports, outside the EU (almost Euro 2.6 billion).

- **A comparative analysis of the Romanian-Chinese trade structures, in 2009 and 2001**

In 2009 the Romanian exports to China amounted to Euro 212.7 million, while imports totalled Euro 1.9 billion. This value of the Romanian exports to China was more than double the level recorded in 2001, while on the imports side, the proportion was almost 7:1 in the same time frame. The export flows were dominated by: *base metals and articles of base metal* (almost 32% of the total exports), *machinery and mechanical appliances and electrical equipment* (23.2%) and *plastics, rubber and articles thereof* (10.8%). These three sections cumulated a share of 66% of the Romanian exports to China. Within the CN section *base metals and articles of base metals*, two subgroups concentrated over 90% of the total: *copper* (60%) and *cast iron, iron and steel* (32%).

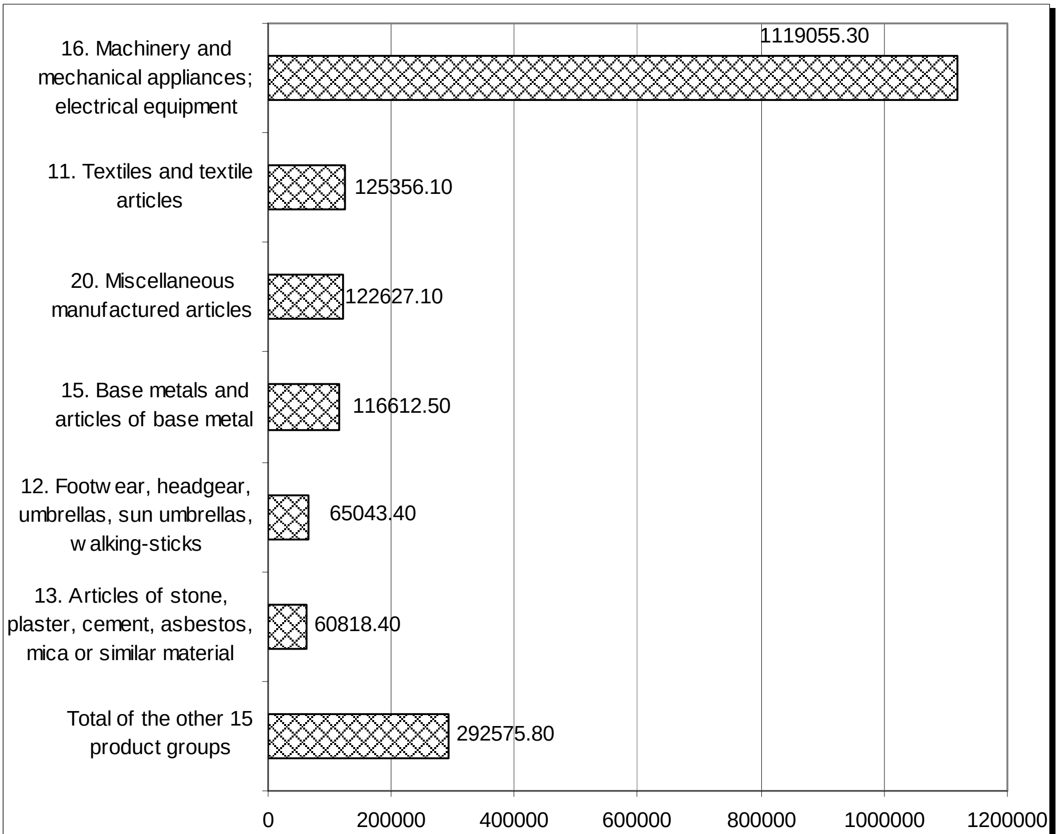
Chart 10: Structure of the Romanian exports to China, breakdown by main product sections of the CN, the Harmonized System, in 2009 (Euro, thousand)



Source: Ministry of Economy, Trade and Business Environment of Romania and the Romanian Centre for Foreign Trade and Investment Promotion.

Within the 2009 Romanian imports from China there was one clearly prevailing section, namely *machinery and mechanical appliances and electrical equipment* which accounted for 60% of the total. While the first 6 sections with the largest share in Romanian exports to China cumulated approximately 90% of the total 2009 export value, the first 6 sections with the largest share in Romania's 2009 imports from China totalled about 85% of the overall import value.

Chart 11: Structure of the Romanian <u>imports</u> from China, breakdown by the main product sections of the CN, the Harmonized System, in 2009 (Euro, thousand)



Source: Ministry of Economy, Trade and Business Environment of Romania and the Romanian Centre for Foreign Trade and Investment Promotion.

In 2009, Romania had a positive trade balance with China in only one section (*mineral products*: Euro 1.3 million), while for the other sections the deficits ranged between Euro 92 thousand (*animal or vegetable fats and oils and their cleavage products*) and Euro 1.1 billion (*machinery and mechanical appliances and electrical equipment*).

Looking at the evolution of the Romanian-Chinese exports and imports by the main sections of the CN during the last decade, we can draw the following conclusions.

<u>On the export side</u>, four sections augmented considerably their shares in the total Romanian exports to China: *base metals and articles of base metals, machinery and mechanical appliances and electrical equipment, products of the chemical or allied industries* and *plastics, rubber and articles thereof*, while two other sections, *wood and articles of wood, wood charcoal, cork and articles of cork* and *vehicles, aircraft, vessels and associated transport equipment* sharply diminished their shares;

The section *base metals and articles of base metals* became the dominant export section and its share in the total exports increased to almost one third.

The section *machinery and mechanical appliances and electrical equipment* augmented almost three times its share in the total Romanian exports to China reaching almost a quarter of the total, but its share in imports increased even more sharply, reaching about 60% of the overall imported value. As a result, the trade balance deficit of this section increased ten-fold, to Euro 1 billion.

In the last decade, other three sections increased significantly their shares in the total Romanian exports to China: *products of the chemical or allied industries* (almost doubled), *plastics, rubber and articles thereof* (more than tripled), and *mineral products* (expanded from unnoticeable shares, to almost 5%). However, the trade deficit of the first two sections kept soaring (it doubled for the first section and it increased more than 13 times for the second one).

The share of *vehicles, aircraft, vessels and associated transport equipment* in the total exports decreased by more than 17 percentage points, to about 5%.

In the last decade, Romania lost its competitive advantage in *wood and articles of wood, wood charcoal, cork and articles of cork*. The trade balance of this sections turned negative after 2007, as its share in the export flows diminished (four times), while its share in the import flows grew quite significantly (from 0.1% to about 2%);

Referring further to the trade balance, two other sections, *base metals and articles of base metals* and *vehicles, aircraft, vessels and associated transport equipment* recorded trade surpluses at the onset of the decade, while in the last years, the balance turned negative. The deficits of the majority of sections displayed a growing trend during the last decade.

On the import side, the most remarkable evolution is that of the section *machinery and mechanical appliances and electrical equipment*, whose share in the overall Romanian imports from China increased from 39.1% in 2001 to 60% in 2009. Another significant increase was recorded by the section: *stone, plaster, cement, asbestos, mica and similar materials* (which tripled, reaching over 3%). In contrast, most of the major import sectors diminished their shares: *textiles and textile articles* (almost halved), *products of the chemical or allied industries* (reduced to about one third), *footwear, headgear, umbrellas, sun umbrellas, walking-sticks* (more than halved) etc. Only one section kept its share unchanged: *base metals* (6.1%);

Comparing the Romania-China trade structure with that of EU-China, one can notice the similarities regarding the imports and the striking differences concerning the exports. The sections *machinery and mechanical appliances and electrical equipment* and *vehicles, aircraft, vessels and associated transport equipment* had, during the last years, a cumulative share of about 60% in the total EU exports, almost double the share of these two sections in the Romanian exports, while the section *base metals* was dominant in our exports, but accounted for only 8.7% of the EU exports to China.

Considering the above, one can conclude that, in relation with China, Romania lost its competitive advantages in many export fields, especially the ones incorporating medium-complexity technologies, while, its expanding home demand led to increased imports of manufactured goods from China, mainly higher value added, technology and capital-intensive products, which entailed a considerable deepening of its trade deficit..

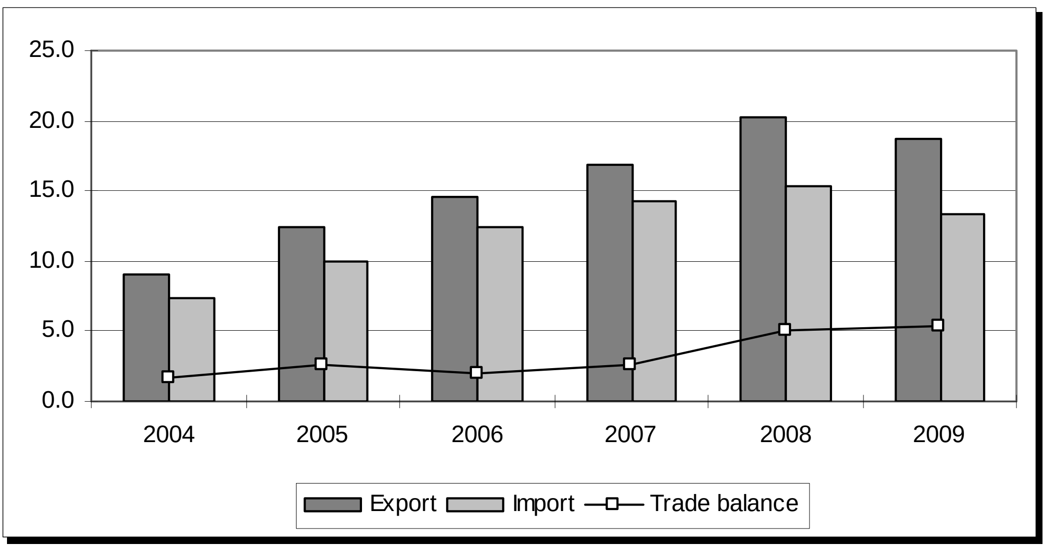
3. The Largely Untapped Potential of the Romanian-Chinese Cooperation Relationship – A View from the Standpoint of Trade in Services

At global level, excluding the intra-community trade, the European Union, as an entity, is by far the main exporter and importer of services, concentrating one quarter of the world total exports and 22% of its total imports, in 2010 (WTO, 2011).

Since 2008, when it managed to surpass Japan, China has ranked third in the hierarchy of the main EU partners trading in services.[11] In spite of being the third largest partner of the EU, China's shares in the export and import services flows are still modest (under 4%), in contrast with the USA and Switzerland, which concentrate the bulk of the extra-EU trade in services. In the EU, Romania is a marginal partner of China as regards trade in services.

Both the EU-China exports and imports fell considerably in 2009 as a consequence of the global economic crisis. Though, the EU-China trade balance in services was positive and the surplus increased from Euro 5 billion in 2008, to a record-level of Euro 5.4 billion in 2009.

Chart 12: EU exports, imports and trade balance in services, 2004-2009 (Euro, billion)



Source: Eurostat (2011b).

[11] At the time of writing the present article, 2009 was the last year for which Eurostat presented data on trade in services.

Table 1: EU trade in services with non-EU countries, 2004-2009

		2004	2005	2006	2007	2008	2009
Total extra-EU trade in services (Euro, billion)	**Export**	366.7	405.2	452.4	506.1	529.0	477.8
	Import	321.4	351.9	381.4	419.1	453.4	414.6
	Balance	45.3	53.3	71.0	87.0	75.6	63.2
EU trade with China (Euro, billion)	**Export**	9.1	12.5	14.5	16.8	20.3	18.7
	Import	7.4	9.9	12.5	14.2	15.3	13.3
	Balance	1.7	2.6	2.0	2.6	5.0	5.4
China's shares in total extra-EU trade in services (%)	**Export**	2.5	3.1	3.2	3.3	3.8	3.9
	Import	2.3	2.8	3.3	3.4	3.4	3.2

Source: Eurostat (2011b).

The group of the new EU member states (NMS)[12] had merely a share of about 1% in the total EU-China services trade, while the EU-15[13] were dominant in both the export and import flows of services. By comparison, in the case of trade in goods, although EU-15 was still the gravity centre of the bilateral relations, the contrast between the the respective shares of NMS and the EU-15 in the total EU trade in services with China was not so striking as in the case of services.

Among the 12 NMS, Hungary, the Czech Republic, Poland and Cyprus were active services exporters, while the same countries in another order (the Czech Republic, Poland, Hungary, Cyprus), plus Romania were dynamic importers. In 2009 Romania ranked only the 23rd in the hierarchy of the main EU services exporters to China and the 20th in that of the importers.

---

12 EU-12: Bulgaria, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia, Slovenia.

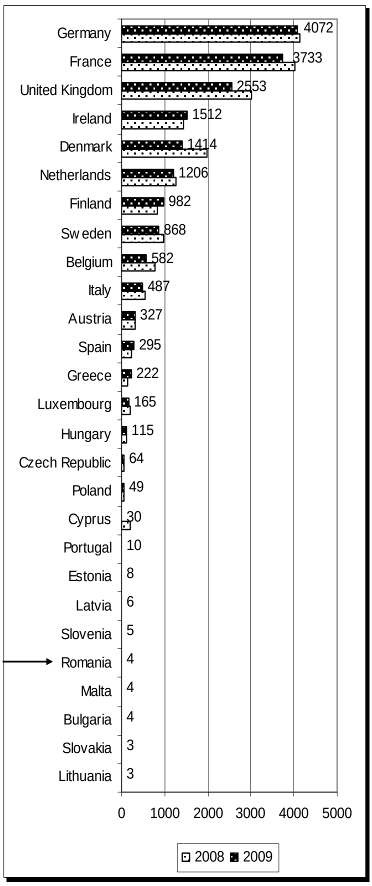
13 Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, United Kingdom (UK).

Romania was one of the 16 EU-countries with negative services trade balance with China after 2005. Its deficit increased from Euro -9 million in 2006, to Euro -15 million in 2007 and further to Euro -26 million in 2008, and then decreased to Euro -22 million in 2009.

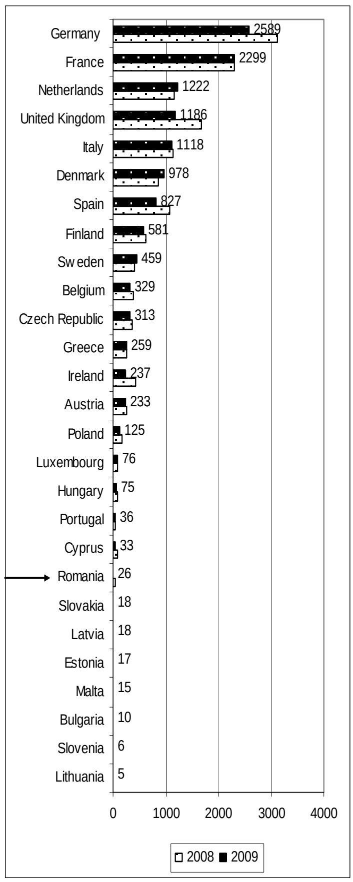
The category of *other services* represented over 50% of the total EU exports to China in 2009, while the imports were dominated by *transport services* (48%) and *other services* (38%). The EU-China trade balance of *other services* displayed a surplus of Euro 5.5 billion (a record value) and the *travel* balance one of Euro 284 million (a record value, too), while the *transportation* balance recorded a deficit of Euro 406 million.

Chart 13: Trade in services – the hierarchy of the EU exporters to, and importers from China, 2008-2009 (Euro million)

Export

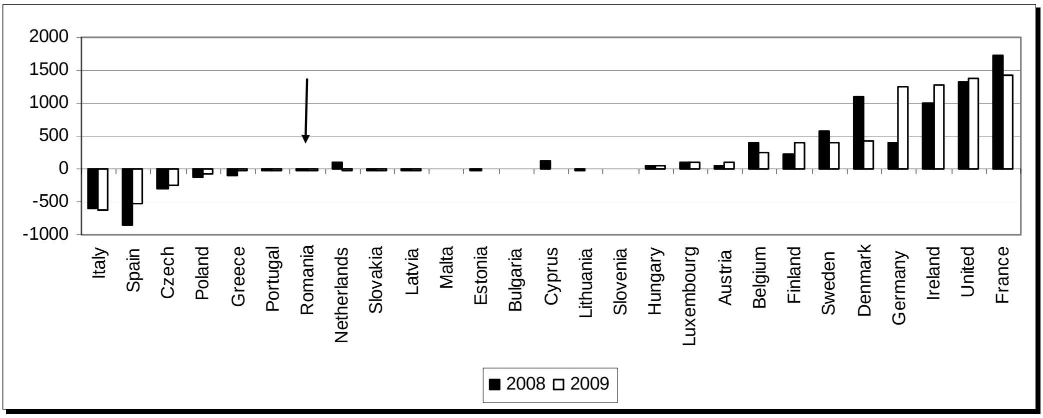


Import



Source: DG Trade (2011).

Chart 14: Trade in services – trade balances of the EU countries in 2008 and 2009*, (Euro, million)



Note: * trade balances are sorted ascending, by the 2009 values
Source: DG Trade (2011).

Table 2: Trade in services – EU-China trade structure, breakdown by the main categories of services, 2009 (Euro, million)

	Export	**Import**	**Trade balance**
Total EU to China	18716	13308	5408
Transportation	6038	6444	-406
Travel	2144	1860	284
Other services	10534	5004	5530

Source: DG Trade (2011).

The trade flows in services between Romania and China in the 2005-2009[14] time frame were too small to become the object of an in-depth analysis. Nevertheless, it should be underlined that the trade balances of all the three main categories of services (*transportation, travel and other services*) were negative in 2009 (with deficits of Euro 1.9 million, Euro 16 million and Euro 7.3 million, respectively). However, the *transportation* trade balance was positive during the 2005-2007 time frame (with yearly surpluses of Euro 1.7 million, Euro 0.3 million and Euro 4.2 million, respectively) but it turned negative afterwards; the *travel* balance was positive only in 2005 (Euro 3.9 million), while the *other services* balance was negative for the whole second half of the last decade.

Obviously, the Romanian-Chinese bilateral trade in services is quite unsubstantial, which leaves a lot of development opportunities for the future. IT&C-connected services, transport, logistics and tourism are some of the most glaring directions to be explored. Considering, in addition, the renewed positive political

[14] For Romania, Eurostat has published data for 2005-2010 (the latest year with definitive data being 2009).

messages of the leaders of the two countries, we can assume an optimistic stance on the future Romania-China trade relations both in goods and services.

4. Conclusions

Romania and China share traditional friendship relations, which passed the test of time and change. The two countries helped each other substantially many times in the past. Back in history, Romania could play a very important part in both China's industrial modernization and its international relations and, in its turn, the remarkably good relationship with China was very beneficial for Romania, too.

Although they have changed tremendously, both in the past and at present the two economies revealed complementarities which generated huge opportunities for trade, investment and cooperation in almost every field of activity. Still, in spite of these favourable conditions, Romania and China never developed their economic relations to their full potential.

Bilateral trade in goods kept rising in the last decade, reaching a record high in 2010 in spite of the economic crisis, but its overall level is still low, exports and imports are still unbalanced, commercial deficit is soaring and goods are often channelled through intermediary countries because direct connections between Romanian and Chinese companies are still poor. Reflecting the strong industrialization and modernization process of China during the last 30 years and its competitiveness gains in various markets, on the one side, and on the other side highlighting a loss of competitive advantage for Romania, the structure of the bilateral trade altered substantially: the bulk of Romanian exports to China is now made of raw materials and intermediary goods, while its main imports from China consist in machinery, equipment and electrical appliances.

Bilateral trade in services is quite unsubstantial, which leaves a lot of development opportunities to be tapped in the future. IT&C-connected services, transport, logistics and tourism are just some of the most obvious directions to be explored.

This article benefited of financial support through the project "Post-Doctoral Studies in Economics: programme of continuous training for the elite researchers – SPODE", financial agreement no. POSDRU/89/1.5/S/61755, project financed through the European Social Fund of the Sectoral Operational Program Human Resources Development 2007-2013.

References

Budura, Ioan Romulus (2005), *Relațiile româno-chineze 1880-1974*, Documente, MAE, Arhivele Naționale, București.

Buzatu, Ion (2004), *Istoria relațiilor României cu China din cele mai vechi timpuri până în zilele noastre. Dansul în lume dintre cea de a doua fiică a Romei - Luomaniya și Împărăția Dragonului Galben – Zhuongguo*, Meteor Press, ediție revizuită şi adăugită.

Câmpeanu, Virginia, Pencea, Sarmiza (coordinators) (2009), *Strategic Developments of the Commercial Relations EU27-China for the Sustainability of the Commercial Deficit of the EU. Romanian Contribution*, Fundamental Program of the Romanian Academy, National Institute of Economic Research, Romanian Academy, Bucharest.

DG Trade (2011), Bilateral Relations Statistics – database accessed in 2011, http://ec.Europa.eu/trade/creating-opportunities/bilateral-relations/statistics/

European Commission (2011), *Report from the Commission to the European Council – Trade and Investment Barriers Report 2011*.

European Commission (2010), *EU - China Summit: Strong increase in EU27 exports to China in the first half of 2010. China second trading partner of EU27*, Press release, 5.10.2010.

Eurostat (2011), Trade in services database, accessed in 2011, http://epp.eurostat.ec.europa.eu/portal/page/portal/balance_of_payments/data/database

Eurostat (2010), Bielecki, Sz., Gori, S., *EU27 International Trade in Services Declined in 2009 Following the Onset of the Global Financial Crisis*, Statistics in Focus, 37/2010, Economy and Finance.

Ministry of Economy, Trade and Business Environment (2011), *Synthesis of Romania's External Trade Evolution 2005-2011*.

Oehler-Şincai, Iulia M. (coordinator) (2011), Agnes Ghibuţiu, Sarmiza Pencea, Costin Lianu (2011), *Potential Extra-EU Markets for the Romanian Companies: Brazil, Russia, India and China (BRIC)*, Editura Tribuna Economică, Bucureşti, ISBN 978-973-688-212-8, 272 pages.

WTO (2011), *World Trade Report 2011*, Geneva.

Collections of: The Economist, The Financial Times, România Liberă, Adevărul.

THE CHARACTERISTICS OF THE SPECIAL COMPANIES

Luminita Tuleaşcă[1]

Abstract:

The major impact of the financial services system on the national and world economies, has determined the creation of a particular framework regarding the access to the activity specific to this sector and the means to exercise it.

The differentiation between the services specific to the financial market of any other commercial activities and the adoption of certain legal provisions applicable solely to these activities and, implicitly, to the trade companies working in this sector, represents the fundamental premise of the special statute of special trade companies.

In this paper, we will analyze, from the perspective of the European and Romanian laws, the characteristics of the main special trade companies: banks and insurance undertakings, characteristics that differentiate the regular trade companies, determining their special legal regime and, as a consequence thereof, their classification as special trade companies.

Keywords*:* special trade companies, banks, insurance undertakings, supervisory and control authorities.

JEL Classification: K2, K22, K33, G21, G22

1. Premises. Notions. Realm.

1.1. The financial market is defined as the market of available capitals, of the capitals offered to investors for covering the funding needs[2] and, the sector of financial services that includes three main areas to which similar European policies are applied: banking, insurance and investments; depends on the companies performing these services, operators composing the financial sector: credit institutions (the banking sector), investment companies (the sector of financial instruments), the insurance undertakings and the reinsurance undertakings (the insurance sector)[3].

The differentiation between the services specific to the financial market of any other commercial activities and the adoption of certain legal provisions applicable

[1]Lecturer Ph.D. ,Faculty of Law, Romanian-American University, Bucharest. E-mail: *luminita.tuleasca@tuleasca.com*

[2] Sebastien Neuville, *Droit de banque et des marches financiers,* Ed. Presses Universitaires de France, Paris, 2005, p.12.

[3] According to art.2 paragraph 8 of the Directive 2002/87/EC of the European Parliament of the Council from December 16th 2002 supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate, published in J.O. CE L 35/11.02.2003, p.1-27.

solely to these activities and, implicitly, to the trade companies working in this sector, represents the fundamental premise of the special statute of *special companies*.

The characteristics of the companies carrying out their activity in the financial services sector: their business object: the supply of financial services and the risk inherent to all their operations, that can have a significant impact in the economy, as well as the need to keep the trust in the financial sector, have determined the special regulation of the conditions regarding the initiation and the exercise of these activities within each financial sector: banking, insurance, investments.

Further we will analyze these characteristics of the special companies, from the perspective of the main special entities: the banks and the insurance undertakings, characteristics that differentiate it from the regular trade companies, determining the special legal regime applicable to it, and, as a consequence thereof, their classification as special trade companies.

Considering the aspects mentioned-above, we are of the opinion that the special regulations applicable to the trade companies operating within the financial services sector, are sufficiently characteristic as to determine the special legal regime applicable to it and their classification as special trade companies.

Thus, there shall be regulated and special companies those trade companies pointing out from among the rest by the bellow mentioned special characteristics:

(i) the existence of the special conditions regarding their set up, the operation, the change and the winding-up.

(ii) the need to obtain prior authorizations for set up and operation from a competent national authority.

(iii) the subordination of their entire activity to the specific sectoral standards[4].

(iv) their permanent supervision by a national competent authority benefiting of control and direct intervention right.

Considering the above, we will include in the special trade companies' category all the types of companies operation in the financial services sector, companies with special regulations, sufficiently characteristic, derogating from the common rules applicable to all types of trade companies, common rules provided under the Law no. 31/1990.

Thus, there shall be considered special trade companies: the credit institutions: the banks, the credit cooperation organizations, economy and funds lending banks in the housing sector, the banks granting mortgage loans and the institutions issuing electronic currency[5]*, the non-banking financial*

[4] Sectoral standards mean the entire EU and domestic law on the operational and prudential requirements and on the supervision of the regulated entities.

[5] These species/categories of the credit institutions are provided by the Government Ordinance no. 99 on 06.12.2006 regarding the credit institutions and the capital adjustment, published in the Official Monitor, Part I no. 1027 on 27.12.2006, as further amended and completed.

According to the Directive no. 2006/48/EC of the European Parliament and of the Council from June 14th, 2006 relating to the taking up and pursuit of the business of credit institutions, published in the European Union Official Journal no. L 177/30.06.2006, the credit institutions are the banks and the electronic money institutions – art. 4 pct.1 of the Directive no. 2006/48/CE.

institutions[6]*, the insurance (reinsurance) undertakings, the financial services companies, the financial investment firms, the Fund for Investors' Compensation, the investments management companies, the investment firms, the market operators on the markets regulated by financial instruments and, last but not least, the trade companies whose shares are traded on a regulated market, etc.*

Considering the scale of the special companies problematics, this paper intends to analyse the characteristics of two of such companies: the banks (as the main species of credit institutions) and the insurance undertakings, as Romanian legal entities.

2. The Characteristics of the Banks

2.1. In a simple and precise manner, that reflects accurately the traditional specificity of the banks, we can say that the bank *"is a trader speculating the money and the credit"*[7].

This meaning transverses the history of human kind, as it has its roots from the ancient times when the Egyptians, the Babylonians and the Phoenicians, started to make profit out of loaning and transporting money, continuing with the Middle Age characterized by "handling" the money by the Land lords and by the establishment of the important public banks (Montes pietatis, Banco di Rialto, Bank of England), and ending with the modern age when the liberal capitalism has created the premises for the current complexity of the banking system.

In the European economic area the banks – special trade companies – represent a category of credit institutions, a species that is no longer regulated under this name by the European laws, which prefers to indicate only the type of such companies: credit institutions, and to leave for the discretion of the member states to include it in the realm of this type of certain categories / types of actual set up of the same.

According to the European legislator, *"Credit Institution"* means:

i) An undertaking whose activity consists in the preservation of deposits or other refundable funds deposited by citizens and the lending of loans in its own behalf, or

ii) An electronic money institution in the sense of the Directive 2000/46/CE.[8] "- Art.4 paragraph 1 of the Directive 2006/48/CE[9]-.

The Romanian law defines in a similar manner the credit institutions, opting however for avoiding the references to other legal texts:

"Credit institution means:

---

[6] The non-banking financial institutions are regulated by the Law no. 93 on 08.04.2009 regarding the non-banking financial institutions, published in the Of. M. Part I, no. 259 on 21.04.2009.

[7] G. Ripert, R. Roblot, Phillipe Delebecque, Michel Germain, *Traite de droit commercial,* Tome 2, 16e edition, Ed. L.G.D.J, Paris, 2000, p.279.

[8] The Directive 2000/46/CE of the European Parliament and of the Council of 18 September 2000 on the taking up, pursuit of and prudential supervision of the business of electronic money institutions, published in the OJ L 275 on 27.10.2000, p.39.

[9] The Directive no. 2006/48/CE of the European Parliament and of the Council of June 14th 2006 relating to the taking up and pursuit of the business of credit institutions, published in the O.J. L 177/30.06.2006.

i) *An entity whose activity consists in drawing deposits or reimbursable funds from the public and in granting credits on its own behalf;*

ii) an entity, other than those provided under the let. a), issuing payment instruments in the form of electronic currency" (art. 7 para. 1 pct. 10 of the G.E.O. no. 99/2006).

2.2. The banking activity, *stricto sensu,* consists in drawing deposits or other non-reimbursable funds from the general public and in granting loans in its own behalf – art.7 para.1 pct.1 of the G.E.O. no.99/2006.

Thus, there are created two main segments of the banks activities: receiving funds from the public (the deposits market) and the credit operations (credits market)[10].

As species of this type of concept, the banks are credit institutions with universal vocation that can perform all the banking activities allowed for the credit institutions[11] (art. 285 para. 1 of the G.E.O. no. 99/2006), the banks being the only credit institutions that can have as business object funds deposits from the general public, while the credit operations represent an activity that is allowed to all these entities and non-banking financial institutions.

The limitation of the domestic and European legal regulations is pointed out by the lack of any defining of the operations representing the banking activity.

The French Monetary and Financial Code[12] includes definitions of the two types of banking activities, definitions that we will further use for understanding the field of banking activity.

Thus, funds received from the public shall be considered to be those funds an entity accepts from a third party (from thirds), especially as deposits, with the right to use such funds for their own accounts and with the obligation to refund it.

A credit operation means any act by which a person uses or promises to use funds, for good and valuable consideration, upon the disposition of another person, or by which it undertakes in favour of such person by signing an aval (or endorsement), a security or another guarantee.

According to the law, there shall be assimilated to the credit operations: the leasing and, in general, all the leases associated with the buying option.

2.3. *The monopoly of the credit institutions* consists in the interdiction imposed on any individual or legal entity with no legal personality that is not a credit institution, to engage in an activity of deposits or other reimbursable funds drawing from the general public, in an electronic money issuing activity or in an activity consisting in drawing and/or managing amounts of money coming from the contributions of the

---

[10] G. Ripert, R. Roblot, Phillipe Delebecque, Michel Germain, *Traite de droit commercial,* Tome 2, op.cit., p.289; Vergile Andronache, Ion Bunescu, *Aspecte ale activității bancare dupa recentele modificări operate în textul Legii bancare nr.58/1998 prin Legea nr.485/2003,* "Revista de Drept Comercial", nr.2/ 2004, p.95.

[11] The conception on the bank meaning – stricto sensu-, is the same in all the domestic laws.

[12] The definitions of the two aspects of the banking activity are provided in the art. L 312-2 para.1 (funds received from the public) and in the art. L 313-1 (credit operations) of the French monetary and financial code, introduced by the order no. 2000-1223 from December 14th 2000, published in the O. J. F. of December 16th 2000, source: www.legifrance.gouv.fr.

members of certain groups set up for gathering collective funds and for granting credits out of the funds thus composed for procurement of goods and/or services by its members[13].

Imposing the monopoly on the banking activity is reinforced by the obligation to carry out the specific activity of the banking sector only by the credit institutions – Romanian legal entities as well as credit institutions from member states and from third states –art.5 para.1 of the G.E.O. no. 99/2006.

This monopoly takes into account the exercise of the banking activities, regular, professional or occasional, only three derogations from this interdiction being allowed, which do not apply to the drawing of deposits or other reimbursable funds:

i) By a member state or by the regional administrations or by the local public administration authorities of a member state;

ii) By the international public organizations to which one or several member states participate;

iii) In the cases expressly provided by the Romanian or EU laws, provided that these activities to be adequately regulated and supervised, for the purpose of protecting the depositors and investors[14].

The general monopoly is doubled by the special monopoly of the banks on the activity of deposits and other reimbursable funds drawing from the public, the other credit institutions having the possibility to perform solely credit operations and banking activity.

The violation of the general monopoly is sanctioned by the criminal law, the National Bank of Romania being the competent authority for qualifying the illegal activities and for deciding their inclusion in the realm of the general monopoly.

The banks monopoly, of the credit institutions in general, indirectly regulated by the EU laws on credit institutions, is justified by *the need to protect the public interest* –the banking activity being an *activity of public interest* – by accepting in this field only those entities offering sufficiently serious guarantees as provided under the conditions imposed by special legal regulations.

2.4. Our laws in the banking area – special characteristic regulation – are perfectly harmonized with the European laws in force, harmonization required as a result of establishing the European single banking market[15].

By means of successive legislative amendments – generally the most applied method for reaching the result imposed by a directive – but also by means of different deeds: Orders, Norms of the National Bank of Romania, we are now in the

[13] Some authors, considers that, the banking monopoly refers to both banking activities as well as to certain aspects for the identification of the credit institutions. See: Christian Gavalda, Jean Stoufflet, *Droit bancaire, Institutions-Comptes, Operations-Services,* 6 edition, Ed. LexisNexis, Paris, 2005, p.34.

[14] The substance of this exceptional situation has been detailed with the last amendment of the G.E.O. no. 99/2006 amended by the G.E.O. no. 25/18.03.2009 published in the Off. M., Part I no.179/April 23rd, 2009.

[15] Ion Turcu, *Realizarea Pietei Bancare Unice Europene prin Directivele Consiliului,* in the ”Revista de Drept Comercial" no. 6/1999, p.20.

position of having no difference between the domestic and international legal regulations (in the sense of EU regulations).

The main special regulation in the matter of trade banking companies and of the other credit institutions, Romanian legal persons, is the G.E.O. no. 99/2006 on credit institutions and capital adjustment[16].

2.4.1. The EU law, by its first directive in the field of credit institutions – the Council Directive no. 77/780/ EEC of 12th of December 1977 on the coordination of the laws, regulations and administrative provisions relating to the taking up and pursuit of the business of credit institutions[17], has set the conditions regarding the authorization of the banking institutions, establishing the principle of prior authorization of these entities as well as, minimum terms and conditions regarding the banks funds and its officers.

The conditions for obtaining the banks authorization have been pointed out again by the second directive 89/646/EEC on the coordination of the laws, regulations and administrative provisions relating to the taking up and pursuit of the business of credit institutions [18].

The main merit of the Directive 89/646/EEC consists in establishing a legal framework, suitable to the banking sector, and in introducing the principle of mutual recognition of the authorization obtained by a credit institution in the origin state – the state where the registered office is located -, this authorization having the statute of *"European Passport"* of the credit institutions.

The Directive 2000/12/EC of the European Parliament and of the Council of 20th of March 2000 relating to the taking up and pursuit of the business of credit institutions, has replaced these two directives -containing all their amendments and completions - by codifying it in a single text, for the unity and clarity of provisions. This directive contains all the principles and reference provisions from the previous directives.

The European laws goes through a complex reviewing process determined by the *Action plan on the financial services 1999-2005 (PASF)*, by the *White chart of financial services 2005-2010* and by the adoption, under the Lisbon Strategy, of the *plan: "A better regulation"(March 2000),* targeting the creation of an integrated European financial market, that is open, competitive and economically efficient, by simplifying, modernizing, encoding the EU instruments and by annulling the instruments that are no longer part of the active acquis[19].

The Directive 2006/48/EC relating to the taking up and pursuit of the business of credit institutions follows the same trend representing, at this point, the main legal

---

[16] G.E.O. no. 99 of 06.12.2006 on the credit institutions and capital adjustments, published in the Of. M. Part I no.1027 on 27.12.2006, effective as of January 1st 2007, approved, completed and amended by the Law no. 277 of 04.07.2007, published in Of.M. Part I no. 480 on 18.07.2007.

[17] Directive 77/780/EC published in the O.J. EC L 386 of 30.12.1989; annulled directive.

[18] Published in the O.J. EC L 386 of 30.12.1989; annulled directive.

[19] Details in the General Report of the European Commission on the European Union activity - 2006, Brussels, Luxemburg 2007, adopted by the European Commission on January 26th, 2007 under the SEC (2006) 1000 final.

regulation of the credit institutions, annulling the Directive 2000/12/EC considered to be the first "European banking law"[20].

2.4.2. On the territory of Romania only the credit institutions that are Romanian legal entities and the credit institutions from member states and third states are allowed to carry out activities specific to the banking sector.

The distinct statute of the credit institutions from the member states, the existence of the "European passport", reflects in the opportunity such institutions have to carry out the banking activity either directly or indirectly, by setting up branches, while the banking institutions from third states can carry out the banking activity solely by setting up branches.

The foreign credit institutions can also open subsidiaries in Romania; these cannot carry out banking activity and shall be limited to information activities, to market research, representation and advertising.

According to the Credit Institutions Register [21], in our country there are 30 banks, Romanian legal entities[22], no branch of a third state bank, 9 branches of member states banks and 224 banks from the European Economic Area that have notified N.B.R. on the direct supply of services on the territory of Romania[23].

2.5. The supervision of the banking companies represents an essential coordinate of the financial market activity and targets, in particular, the protection of interests of the depositors and the provision of the financial system steadiness.

The supervision is accomplished on two main levels: at the internal/domestic level, through the competent national authority, in our country this authority being the National Bank of Romania and, at the EU level through the European Commission having the following specialized entities: the European Committee of the banking inspectors (set up by the Decision no. 2004/5/EC of the 5th of November 2003[24]), as an independent consultative group for the banking control within the Community and, the European Banking Committee (set up by the Decision 2004/10/EC[25]) a consultative committee regarding the regulation of the banking activities within the Community.

2.5.1. The National Bank of Romania has exclusive competence for authorizing the credit institutions, Romanian legal entities and is liable for the prudential

---

[20] Francesco Giorgiani, Carlo-Maria Tardivo, *Manuale de Diritto Bancario,* Giuffre Editore, Milano, 2005, p.31.

[21] Special records-keeping and banks publicity system, created by the N.B.R. Regulation no.1/01.02.2007 on the credit institution registry, Published in the OF. M., Part I no. 119 of 16.02.2007; detailed in: Francoise Dekeuwer-Defossez, *Droit Bancaire,* Ed. Dalloz, Paris, 1999, p.12; Lucian Bercea, *Sistemul de evidență și publicitate a instituțiilor de credit,* "Revista de Drept Comercial" nr.4/2004, p.149.

[22] Source N.B.R., www.bnr.ro, information supplied on 18.01.2012.

[23] Source N.B.R., www.bnr.ro; the list with the banks notifying N.B.R. on the direct service supply on the territory of Romania drafted as on January 2012.

[24] Published in the O.J. of EU L 3 of 7.01.2004.

[25] Published in the O.J. of EU L 3 of 7.01.2004.

supervision of the same, under the Law no. 312 of 28.06.2004 relating to the Statute of the National Bank of Romania[26].

With over 132 years of existence, the National Bank of Romania is the central bank [27] of Romania, is an independent public institution and has the following main duties:

(i) Drafting and application the monetary policy and the foreign exchange policy

(ii) Authorization, regulation and prudential supervision of the credit institution, promotion and monitoring of the proper operation of the payment systems for securing the financial stability

(iii) Issuing of the banknotes and coins as legal payment means on the Romanian territory

(iv) Establishing the foreign exchange regime and the supervision of its compliance

(v) The management of the international reserves of Romania.

Moreover, the N.B.R. supports the overall economic policy of the state, without prejudicing the fulfilment of its main objective on the prices provision and maintenance.

The independence of the National Bank of Romania is complete, considering that, in complying with its tasks, the National Bank of Romania and the members of its management authorities do not request and do not receive instructions from the public authorities or from any other institution or authority – art.3 para.1 of the Law no. 312/2004 and the art.7 of the Statute of the European System of Central Banks.

The EU institutions and bodies, as well as the member states governments, have undertaken to comply with the principle of European Central Bank (ECB) and with the national central Banks independence and to refrain from trying to influence the members of the management boards of ECB and of the national central banks in accomplishing its missions.

As member of the European System of Central Banks (ESCB) – created by the Maastricht Treaty and by the Protocol regarding the Statute of the European System of Central Banks and of the European Central Banks of 07.02.1992, N.B.R. is invested with the control of monetary policy.

The European System of the Central Banks (the Eurosystem) is composed of the European Central Bank and the national central banks and its main responsibilities regarding the definition and management of the monetary policy of the Community, the promotion of the good functioning of the payment system, the management of the exchange operations, the holding and security of the official exchange reserves of the member states, contributes to the good conducts of policies established by the competent authorities as far as the prudential control of the credit institution and the financial system stability are concerned.

[26] Published in the Of.M. Part I no.582 of 30.06.2004.

[27] Flouzant Osmont D'Aurilly, *Le concept de banque central,"* Bull. Banque de France", nr.70, octombrie 1999.

The European Central Bank regularly grants endorsements, and it is consulted by the Council, by the European Commission and by the competent authorities of the member states, regarding issues like adoption and application of the EU law on the prudential control of the credit institution and the financial system stability[28].

By the art.282 of the Treaty for the Functioning of EU, the European Central Bank becomes one of the major institutions of the EU, the principle of the loyal cooperation between institutions being applicable, given that the institutional framework of the Union targets „the promotion of its values, the continuation of its objectives, serving the best interests of the citizens and of the member states, as well as the insurance of the coherence, efficacy and continuation of its policies and the member states policies"[29].

This is the context the National Bank of Romania operates, by centralizing the information regarding the credit institutions and playing a fundamental role in liquidating the financial system, in preserving the health of the Romanian banking system.

3. The Characteristics of the Insurance Companies

3.1. Now, in the modern times, the insurers *"valorise the pecuniary liquidities on the capital market, contributing to a country's economy crediting, by using a part of their funds for the funding of prevention and risks fighting projects, contribute to the decrease of the economic uncertainty and to the resuming of the prematurely interrupted activities"*[30].

The insurances are a necessity of the commercial activity, of both the entrepreneurs and the individuals and, in the sophisticated national economies, the commercial sector cannot function if not covered by the umbrella offered by insurances, allowing the entrepreneurs to effectively operate and offering to them risks transfer mechanisms, thanks to the fact that some of the risks related to their activity are incurred by third parties.

The spectacular evolution of the insurances during the last few decades and their role in the economy, have lead to the reanalysis of the entire legal concept, both the insurance and reinsurance services as well as the entities specialized in service supply, benefiting of a special regulation at European and national level.

If, as far as the capital market specific activity is concerned, its inclusion within the realm of the activity of public interest, the insurance-reinsurance services are indicated by law as being of public interest.

---

[28] For a detailed presentation of the European system of Central Banks and of the statute of the European Central Bank see: Dan Grosu Saguna, Monica Amalia Ratiu, *Drept bancar*, Ed. C.H.Beck, Bucuresti, 2007, pp.314-319.

[29] Alina Oprea,*Tratatul reformator de la Lisabona, etapa semnificativă în istoria construcției comunitare*, "Pandectele Romane" no.2/2008, p.54.

[30] Ion Turcu, *Redresarea financiară și falimentul societăților de asigurare,* "Revista de Drept Comercial" no.2/2005; see also: Ion Vacarel, Florina Bercea, *Asigurari si Reasigurari,* Ed. Expert si Marketer, Bucuresti, 1993; Violeta Ciurel, *Asigurări și reasigurări, abordări teoretice și practice internaționale,* Ed.All Beck, Bucuresti, 2000.

This classification of the insurance-reinsurance services, their impact on the economic and social life, justifies the special attention granted to the activity itself and, in particular, to the entities performing such activity.

3.2. The insurance undertaking is the main entity operating in the insurance sector implementing all types of insurance services: the offering, the negotiation, the insurance-reinsurance contract signing, the premiums collection, the damage liquidation, the regress and recovery activity, as well as the investment and capitalization of undertaking's own funds and of the funds drawn by the undertaking's activity.

The main element of the insurance undertakings distinguishing them from the other market operators acting on the insurance services market, is their possibility to carry out insurance operations – insurance activities *stricto sensu*.

Without a legal definition, we will define the insurance undertaking by the specificity of its activity: the insurance activity understood as performance of insurance operations.

The option for the use of such a criterion is determined by an inadequate definition of the insurance activities offered by the Romanian legislator: *the insurance activity – the activity exercised in or from Romania, referring mainly to the offering, the negotiation, the insurance-reinsurance contract signing, the premiums collection, the damage liquidation, the regress and recovery activity, as well as the investment and capitalization of undertaking's own funds and of the funds drawn by the undertaking's activity* - art. 2 para. 1 let. A pct. 1 of the Law no. 32/2000 on the insurance activity and insurance supervision[31].

Apart from the inadequate limitation of the insurance activity to the Romanian territory, such a definition, that is far too lax, of the insurance activity, does not allow us the separation of the insurance undertakings from the insurance intermediaries (that do not have the statute of insurers).

For this purpose, *the European laws regulating the insurance activities, refer to the initiation of the "independent activity of direct insurance"* (art. 1 paragraph 1 of the Directive 84/641/CEE[32] for the amendment of the first Directive 73/239/EEC on general insurances [33] and, art. 2 paragraph 1 of the Directive 2002/83/EC on the direct life insurance *[34]) and not to the "indirect" ones carried out by the reinsurers or by the insurance products distributors:* insurance intermediaries (agents, brokers and banking insurances agents) whose activity is regulated by specific laws: Directive 2005/68/EC on reinsurances [35], Directive 2002/92/EC of the European Parliament and of the Council of 9th of December 2002 on insurance mediation[36].

---

31 Published in the Off. M. Part I no. 148 on 10.04.2000, as further amended and completed.

32 Directive 84/641/EEC of 10.12.1984, published in the O.J. CE L339/27.12.1984, p.21-25.

33 Directive 73/239/EEC of general insurances of July 24th 1973, published in the O.J. L228/16.08.1973, p.3-19.

34 Directive 2002/83/EC on the direct life insurance of 05.11.2002, published in the O.J. L345/19.12.2002, p.1-51.

35 Directive 2005/68/EC of 16.11.2005 on reinsurance, published in the O.J. L 323 on 9.12.2005.

36 Directive 2002/92/EC of the European Parliament and of The Council of 9 December 2002 on insurance mediation published in the O.J. L 9 on 15.01.2003; the Commission Recommendation no. 92/48/EEC of 18th of December 1991 on insurance mediation, published in the O.J. L19 on 28.01.1992 had an essential role in adopting this second directive in the matter of insurance intermediaries.

The insurance activity specific only to the insurance undertakings does not include the distinct performance of the insurance mediation activity, in the sense of activity consisting in the presentation or proposing or carrying out other work preparatory to the conclusion of contracts of insurance, or of concluding such contracts, or of assisting in the administration and performance of such contracts, in particular in the event of a claim.

These activities when undertaken by an insurance undertaking or an employee of an insurance undertaking who is acting under the responsibility of the insurance undertaking shall not be considered as insurance mediation"- art. 2 paragraph 3 of the Directive 2002/92/EEC.

The correct definition of insurance undertakings and of the insurance activity is necessary because these undertakings form the object of specific rules regarding the set up, functioning, control a.s.o., therefore it is vital to know the specific field of regulation.

3.2.1. From the legal point of view, the insurance has been defined from the perspective of the insurance contract, as the contract by which the insurance contractor or the insured undertakes to pay a premium to the insurer, and the later undertakes to indemnify, in case of the occurrence of insured risk, the insured, the beneficiary of the insurance or the affected third party by paying to it the compensation or the insured amount, hereinafter referred to as indemnity - art. 9 of the Law no. 136/1995 on insurances and reinsurance in Romania[37].

In a similar manner, the insurance has been defined as representing that convention by which, in exchange for the insurance premium payment, the insurer undertakes to hold the insured harmless against any risks covered by the contract, by paying an indemnity, generally under the form of pecuniary indemnity[38].

Simpler versions of such definition are the following: "the insurance activity is an economic operation consisting in the security against the damaging patrimonial consequences occurred from a determined risk and in the distribution of such securities among the subjects facing the same type of risk"[39] or, "the undertaking and administration of the risks carried out by an insurance undertaking"- art. 1 para. 1 let. c of the Italian Private Insurance Code[40].

[37] The Law no. 136 of 29.12.1995 on insurances and reinsurance in Romania, Published in the Off. M. Part I no. 303 on 30.12.2005, as further amended and completed; A similar definition to the legal one we find also in the French doctrine: Lambert-Faivre, Y. & Leveneur, L. (2005). *Droit des Assurance,* 12e edition, Paris: Dalloz, p.41-42.

[38] Ibidem, op.cit., p.41, quoted also in: Radu N. Catana, *Dreptul Asigurărilor –Reglementarea activităților de asigurare, Teoria generală a contractului de asigurare,* Ed.Sfera Juridica, Cluj-Napoca, 2008, p.15.

[39] Antigono Donati, Giovanna Volpe Putzolu, *Manuale di Diritto delle Assicurationi,* Giuffre Editore, Milano, 2006, p.3.

[40] The Private Insurance Code– the Decree Law no. 209 of September 7th 2005 published in the G.U on 13th of October 239-Supplemento Ordinario n.163, in: Marino Bin, *Codice delle Assigurationi, La nuova disciplina della assicurationi dopo il D.LGS. 7 settembre 2005*, Giuffre Editore, Milano, 2006, p.3.

3.2.2. The activity of commercial insurance[41] is divided in "*branches*", in categories of insurances including different classes of insurances, categories corresponding to certain types of risks, the official list of such being established by the European laws and by the art.3 para.1 and by the Annex no. 1 of the Law no. 32/2000.

The official list of insurance activities has a fundamental role for the insurances sector considering that, all the insurance undertakings need a permit issued by the supervisory authority – and the compliance with certain specific terms – for being entitled to carry out one of the insurance categories.

On the other hand, at the level of the EU laws on insurances there is no definition of the meaning of insurances operations and, in such conditions, the only criterion for establishing the field including it is this official list, this enumeration of the different types of insurances.

According to the Law 32/2000 the insurance activity is grouped in life insurances and general insurances.

Thus, the insurance undertaking *is that trade company – subject to a specific control*[42]*- delivering professional insurance operations*[43]*, and operations by which an insurer sets up, based on the mutual assistance principle, an insurance fund, by the contribution to a number of insured, exposed to the occurrence of certain risks and indemnifies the ones suffering a prejudice based on the fund established from the collected premiums, as well as based on the other income resulting from the activity carried out by such insurer.*

3.4. The insurance undertakings differentiate from any other trade companies by the structure of their activity, by the specific applicable rules and, by the permanent control exercised by an independent administrative authority.

The special legal regime of the insurance undertakings is justified because, as the banks, these companies deal with a large amount of money, carry out a high socio-economic impact activity, the trust in such activity is quite high, and this trust should not be affected considering that these insurance undertakings operate in a sector where the operators' bankruptcy generate more negative consequences than in the case of any other entity.

3.4.1. At the national level, the insurance undertakings are regulated by the special Law no. 32/2000 regarding the insurance activity and the insurances supervision completed by the Law no. 136/1995 on insurances and reinsurances in Romania[44] as well as by the norms issued by the national supervisory and control

[41] For the difference between the commercial insurances and the social insurances (that are not the business object of the insurance companies) see: Radu N, Catana, op.cit., p.24 and the following.

[42] This emphasize on the insurance undertakings is deemed as required by the need to distinguish between the insurance undertakings and the mutual ones that also carry out professional insurance operations but, do not fall under the realm of the insurance undertakings specific regulation – see also, Jean Bigot, *Traite de droit des assurances*, tome 1, Entreprises et organisme d'assurance, 2e edition, Ed. L.G.D.J., Paris, 1996, p.34.

[43] Ibidem, p.34.

[44] Law no. 136/1995 of 29.12.1995 on the insurances and reinsurances in Romania, published in the Of. M. Part I, no.303 / 30.12.1995, as further amended and completed.

authority for the insurance and reinsurance activity: The Insurance Supervision Commission.

The national regulation of the insurance undertakings complies with the singularities of these entities, establishing for them a special legal regime that allows them to classify them as special companies.

3.4.2. The EU regulations regarding the Insurances market[45] are not yet unified – in the sense of a single act that would coordinate the entire area of interest specific to insurances - being specialized depending on the insurances categories: life insurances and general insurances (direct insurances other than life insurances).

As of January 2012 there are 34 directives - directly or indirectly applicable to the insurance activity – on : general insurances, life insurances, reinsurances, car insurances, loan and securities insurances, legal protection insurances, legal assistance insurances, regarding the insurance intermediaries, annual balance sheets and consolidated balance sheets of the insurance undertakings, regarding the solvability and the solvability margin of the insurance companies, the additional supervision of the financial conglomerates, the restoration and winding-up of the insurance undertakings, a.s.o.

In the matter of general insurances, the first European directive 73/239/EEC of July 24th 1973 for the coordination of legal provisions and administrative provisions on the initiation of the direct insurance activity, other than the life insurance[46], has introduced the fundamental principle of access to this activity based on an administrative permit, such principle being completed by removing the restrictions on the freedom of the insurers to set up –that have been considered illegal considering the provisions of the art. 52 of the EEC Treaty - implemented by the Directive 73/240/EEC on the removal of restrictions related to the freedom of set up in the field of direct insurance activity, other than the life insurance[47].

The second directive in general insurance: 88/357/EEC of 22nd of June 1988[48] for the coordination of legal provisions and administrative provisions on direct insurance other than the life insurance, for establishing the provisions meant to facilitate the effective exercise of the freedom to provide services and for amending the Directive 73/239/EEC, had established the distinction between the large risks and the general risks.

---

45 I. Vacarel, F. Bercea, F. op.cit., p.68, are the authors that initiate in Romania the use of the notion “insurance market”.

46 Directive 73/239/EEC of July 24th 1973 for the coordination of legal provisions and administrative provisions on the initiation of the direct insurance activity, other than the life insurance, published in the O.J. E.C. L 228 on 16.08.1973.

47 Directiva 73/240/ EEC on the removal of restrictions related to the freedom of set up in the field of direct insurance activity, other than the life insurance, published in the O.J. E.C. L 228 on 16.08.1973.

48 Published in the O.J. EC L 172 on July 4th, 1988.

The Directive 92/49/EEC of 18th of June 1992[49] for the coordination of legal provisions and administrative provisions on direct insurance, other than the life insurance and for amending the Directives 73/239/EEC and 88/357/EEC (the third directive on general insurance), has introduced the system of "the single license", of the *"European passport"* effective as of July 1st 1994, system that allows the insurance undertakings authorized in the member state where their registered office is located, to have the liberty to establish agencies and branches and the liberty to supply services in all the other member states of the European Union (at that time the European Communities), based on the authorization granted by the competent authority from the state of origin.

In the matter of life insurances the system of the "European passport" has been introduced by the Directive 92/96/EEC of 10th of November 1992[50] for the coordination of legal provisions and administrative provisions on direct life insurance and for amending the Directives 79/267/CEE and 90/619/CEE (the third directive on life insurance), directive that has been partially annulled by the Directive 2002/83/EC[51] of 5th of November 2002 on direct life insurance.

The number of regulations in the insurances sector and the successive amendments of the directives create major difficulties; therefore, the *European Commission has proposed a ground-breaking revision of EU insurance law designed to improve consumer protection, modernise supervision, deepen market integration and increase the international competitiveness of European insurers* [52].

Thus there has been adopted the Directive 2009/138/EC - Solvency II[53], based on which the insurance undertakings shall have to hold different accounts for all types of risks they are subject to and to manage such risks much more efficiently. Moreover, as far as the groups of insurers are concerned, a better supervision of the same is estimated to be established.

By this directive that will become effective in 2013, the legislator targets also the replacement of the 14 main directives on insurances, with a single main directive (skeleton directive) representing the number one regulation level, further details and technical rules being subsequently adopted as implementation measures issued by the Commission.

Obviously, the new trend in the field of EU regulation on insurances frames under the Lamfalussy procedure style and implicitly in the European Union Strategy *"A better regulation"*.

[49] Published in the O.J. EC L 228 on August 11th, 1992.

[50] Published in the O.J. EC L 360 on December 9th 1992.

[51] Published in the O.J. L 345 on December 19th, 2002.

[52] *Solvency II: EU to take global lead insurance regulation,*10 July 2007, Brussels, Reference: IP/07/1060.

[53] Directive 2009/138/EC of March 25th 2009 on the access and carrying ou the insurance and reinsurance activities, published in the O.J. of E.U. L335 on December 17th 2009.

The European directives on insurances have been transposed in our laws in a more or less complete or adequate manner, by complying also with the basic principles promoted by such European Instruments.

3.5. The monopoly of the insurance companies is imposed at the European level and at the national level, for all insurance categories.

In the case of European directives, the monopoly is indirectly established by the conditioning on granting the necessary authorization for initiating the insurance activity on the limitation of the business objects of the company to the activity provided by directives and to the operations directly resulting from it, excluding any other trade activities (in addition, indicating exactly the types of the insurance undertakings) – art. 6 paragraph 1 let. b of the Directive 2002/83/EC on direct life insurance and the art. 8 paragraph 1 let. b of the Directive 73/239/CE on general insurance.

The Romanian law adopts the same European model of indirect regulation of the monopoly on the insurance activity that can be exercised solely by insurance undertakings, entities with a single business object: the insurance activity and authorized by the competent authority (art. 11 and art.12 para. 4 let. f of the Law no. 32/2200).

3.6. The supervision of the insurance undertaking, during its existence, *is mainly accomplished, at the national level, by the competent authority, i.e.* Insurance Supervision Commission, as the national authority of the origin member state, empowered by the Law no. 32/2000 to authorize, supervise and control the Romanian insurance undertakings.

The role of the European Commission in the supervision of the insurance undertakings, manifests by the permanent monitoring and coordination of the insurance sector and, especially, of their failure.

The Commission is assisted in its activity, by the European Committee on insurances and occupational pensions [54] that offers counselling upon request, on the issues related to the policies in the insurance field, to the reinsurance and occupational pensions, as well as on the proposals of the Commission in this field. The Committee analyses any legal aspect related to the application of the EU provisions in the field of insurance, reinsurance and occupational pensions, especially the directives regarding the insurance, reinsurance and occupational pensions.

The European committee of the insurance and occupational pensions inspectors, set up by the Decision of the European Commission 2004/6/CE of 5th of November 2003, is the second organism that has the purpose of counselling the

[54] By the Directive a 91/675/CE of December 19th 1991 for the set up of a Committee for insurances, published in the O.J. EC L 374 / 31.12.1991 there has been established gthe Committee for insurances transformed in the European Committee for insurances and occupational pensions based Decision of the Commission 2004/9/EC OF November 5th 2003 for the set up of the European Committee for insurances and occupational pensions, published in the O.J. L 3/ 07.01.2004;

Commission in the insurance sector, including ex officio, especially in the case of the projects for implementation measures that have to be drafted in the insurance, reinsurance and occupational pensions sector, has the role to analyze, debate and issue endorsements to the Commission on the problems related to the insurance, reinsurance and occupational pensions.

The Committee contributes to the coherent application of the EU directives and to the convergence of the prudential practices of the member states in the entire Community and represents a cooperation forum between the control authorities, especially by the information exchange on the institutions subject to controls.

3.7. In Romania, the insurance activity is under development and is exercised by:

i) Romanian legal entities, set up as joint stock companies and/or mutual companies, authorized by the Insurance Supervision Commission;

ii) insurers or reinsurers authorized in the member states, that carry out the insurance or reinsurance activity on the territory of Romania in accordance with the right to set up and the freedom to supply services;

iii) branches belonging to mother companies governed by laws of a third country, authorized by the Insurance Supervision Commission;

iv) subsidiaries of insurers or reinsurers from third countries, authorized by the Insurance Supervision Commission;

v) Insurers or reinsurers adopting the form of a European joint stock company (SE - Societas Europaea).

According to the Register of insurers and insurance brokers, at the level of the January 2012, the Romanian insurance market included 41 insurance undertakings and 587 insurance – reinsurance brokers, Romanian legal entities[55] and 441 insurance undertakings and intermediaries from the European economic area that have notified the Insurance Supervision Commission their intention to perform insurance activities in our country, based on the principle of free movement of services[56].

4. Conclusions

Any approach of the of the special companies should consider the general characteristics of these special entities: they operate on the financial market, are regulated entities and subject to the permanent monitoring and control of the national autoritys from the member state of origin, the risk is the defining coordinate of their activity, they perform activities considered to be of general interest and benefit from special legal regulations at European and national level.

The characteristics of the main special companies analyzed in this paper, offer us the possibility to properly understand the essence and the running principles of

---

[55] Source: The register of the insurers and insurance brokers published on www.csa-isc.ro;

[56] Source: CSA- www.csa-isc.ro;

companies acting in the financial services sector at the national, European and world level.

Moreover, their characteristics are those that have justified and imposed their differentiation from among the regular trade companies, and, automatically, the creation and application of a special legal system, under the form of a special legal regime, derogating from the Common corporate law, based on the classical structure of the common law but, naturally, adjusted to the specificity and implications of the system in which they work.

References

Vergile Andronache Vergile, Ion Bunescu, 2004, *Aspecte ale activității bancare dupa recentele modificări operate în textul Legii bancare nr.58/1998 prin Legea nr.485/2003*, "Revista de Drept Comercial nr.2/2004".

Lucian Bercea, 2004, *Sistemul de evidență și publicitate a instituțiilor de credit*, "Revista de Drept Comercial nr.4/2004".

Jean Bigot, 1996, *Traite de droit des assurances*, tome 1, Entreprises et organisme d'assurance, 2e edition, L.G.D.J., Paris .

Marino Bin, 2006, *Codice delle Assigurationi, La nuova disciplina della assicurationi dopo il D.LGS. 7 settembre 2005*, Giuffre Editore, Milano

Radu N. Catana, 2008, *Dreptul Asigurarilor –Reglementarea activităților de asigurare, Teoria generală a contractului de asigurare*, Ed. Sfera Juridica, Cluj-Napoca.

Violeta Ciurel, V. (2000). *Asigurări și reasigurări, abordări teoretice și practice internaționale*, Ed. All Beck, Bucuresti.

Flouzat Osmont D'Aurilly, 1999, *Le concept de banque central*, "Bull. Banque de France", nr.70, octombrie.

Francoise Dekeuwer-Defossez, 1999, *Droit Bancaire*, Ed. Dalloz, Paris.

Antigono Donati, Giovanna Volpe Putzolu, 2006*Manuale di Diritto delle Assicurationi*, Giuffre Editore, Milano.

Christian Gavalda, Jean Stoufflet, 2005, *Droit bancaire*, Institutions-Comptes, Operations-Services, 6 edition, Ed. LexisNexis, Paris.

Francesco Giorgiani, Carlo-Maria Tardivo, 2005, *Manuale de Diritto Bancario*, Giuffre Editore, Milano.

Yvonne Lambert-Faivre, Laurent Leveneur, 2005, *Droit des Assurance*, 12e edition, Ed. Dalloz, Paris.

Sebastien Neuville, 2005, *Droit de banque et des marches financiers*, Paris: Presses Universitaires de France, Paris.

Alina Oprea, *Tratatul reformator de la Lisabona, etapa semnificativă în istoria construcției comunitare*, 2008, "Revista Pandectele Romane" nr.2/2008.

G. Ripert, R. Roblot, Phillipe Delebecque, Michel Germain, 2000, *Traite de droit commercial*, Tome 2, 16e edition, Ed. L.G.D.J, Paris.

Dan Grosu Saguna, Monica Amalia Ratiu, 2007, *Drept bancar*, Ed. C.H.Beck.

Solvency II: EU to take global lead insurance regulation (10 July 2007), Brussels, Reference: IP/07/1060, 2007.

Ion Turcu, *Realizarea Pieţei Bancare Unice Europene prin Directivele Consiliului*, "Revista de Drept Comercial" nr.6/1999.

Ion Turcu, *Redresarea financiară şi falimentul societăţilor de asigurare,* "Revista de Drept Comercial" nr.2/ 2005.

Iulian Vacarel, Florina Bercea, 1993, *Asigurari si Reasigurar*i, Ed. Expert si Marketer, Bucuresti.

REFLECTIONS

THE EUROPEAN UNION STRATEGY FOR THE EUROPEAN SOUTH-EAST GEO-ECONOMIC SPACE

Marcel Moldoveanu*

Abstract

In a world of ever increasing interdependences among the new dimensions of globalization (economic, political, diplomatic, cultural and human), the deepening of the integration and economic cooperation in the South-East part of Europe can be analyzed from two perspectives: a) the perspective of the complementarity of this process in relation to the process of integration in the Euro-Atlantic structures; and b) as an objective of the acceleration of economic reform and democratization of the social-political life, against the background of the national and regional specifics.

Coordinates of the European Union enlargement process

The enlargement of the European Union towards the South and East of the continent is part of the larger context of the philosophy of reunification of the European continent, based on the concept of a "Free and United Europe"[1], but also part of the common foreign and security policy as defined by the Maastricht Treaty[2].

The involvement of the South-East European countries towards the economic and institutional building of the European Union is an imperative determined by the necessity of securing the regional stability and security, by the necessity to provide a firm economic ground, determined by the process of modernizing the productive structures and of increase of trade, investment, technological and information flows.

The speed up of the process of association and integration with the European Union has represented, at the same time, a major objective for the countries of South-East Europe themselves.

According the provisions of the European Economic Communities Treaty regarding the preparation for the accession of the candidate states, the European Community had the right to conclude agreements with third party countries as association agreements or as special cooperation procedures.

The enlargement of the European Union towards the East and South-East of Europe has intensified starting 1998 and represented one of the substantive elements of the European architecture. In fact, this objective took a central place within the European Council Reunion in Helsinki, in December 1999[3]. This enlargement process is complex and continues to be difficult.

---

* Marcel Moldoveanu, Ph.D, is at the Institute of World Economy in Bucharest.

[1] Winston Churchill, Speech to the Academic Youth, Zürich, Switzerland, 1946

[2] Treaty On European Union, Official Journal C 191, 29 July 1992

[3] Helsinki European Council 10 And 11 December 1999, Presidency Conclusions

According to some analyses of the European Commission the new candidate states from South-East Europe (and particularly from the space of former Yugoslavia) do not fulfill the accession criteria[4]. For instance, a major requirement that is not fulfilled refers to the independence, competence and responsibility of the act of justice, particularly in relation to the challengers determined by corruption, criminality terrorism, traffic of persons and of illegal drugs[5].

Despite these shortcomings, the accession negotiations have continued, particularly with Croatia and Turkey, countries that, for different reasons, were more advanced as regards the necessary reforms, the political stability, the democratization of social life and the development of the economic and cultural relations with the European Union. At the same time, negotiations took place with Serbia, Macedonia and more recently with Montenegro, but for these countries there is no tentative date established for accession.

If as regards Croatia the negotiations have been finalized and the country will join the European Union by July 1st, 2013 as the 28th member state[6], in case of Turkey there are still some reluctance from the part of some European Union members.

In this context, the European Commission, in cooperation with specialized financial institutions, among them the European Investment Bank, the European Bank for Reconstruction and Development, try to design effective mechanisms for providing financial aid to the countries from West Balkans (Albania, Bosnia-Herzegovina, Macedonia, Montenegro and Serbia) in view of the development and modernization of the transport infrastructure, the achievement of some energy projects and environment protection, as well as for the increase of the efficiency of small and medium enterprises.

During the carrying on of the process of regional cooperation and European integration one can note as positive facts the finalization of negotiations with Croatia and the acceleration of the association process with Serbia. We can appreciate that the approval by the European Parliament (in January 19, 2011) of the "Stability and Association Agreement " with Serbia - followed by the ratification of the Agreement by the 27 member countries, opened the prospects for the intensification of cooperation and trade exchanges, particularly in the fields of environment and transport infrastructure, as well as for the support of reforms that will assist in the democratization of the country.

The achievement of a free trade area and the gradual integration of Serbia within the internal market of the European Union will increase the volume of the bilateral and multilateral economic relations and will stimulate the attraction of foreign direct investments.

---

[4] http://ec.europa.eu/enlargement/index_en.htm

[5] Candidate and Potential Candidate Countries, http://ec.europa.eu/environment/enlarg/enlargement_en.htm

[6] http://ec.europa.eu/enlargement/countries/detailed-country-information/croatia/index_en.htm

To the extent the enlargement of the European Union towards the South-East of Europe represents a mutual objective the main issue remains the fulfillment of the accession criteria, given the increase of the requirements in this respect as result of the current needs of the European project.

Romania, as a European Union member state can capitalize at a larger scale, due to its geo-strategical position, its important potential of material and spiritual values which can with great success be part of the circuit of regional and inter-regional cooperation. In this context Romania can act, as the famous scholar Nicolae Iorga once said, as "a space of synthesis of the values from the European West and the Byzantine East"[7].

The intensification of the cooperation relations of Romania in the South-East European space, as well as in the geo-economic and strategic Danube – Black Sea space and , by extension, Euro-Mediterranean space (with opening to Africa and Middle East) implies the design and development of some sustainable and realistic projects which can evolve from concept to pragmatic approaches.

The design and development of such projects requires the taking into account of some reference elements: the geographical proximity, in the context of belonging to the same culture and civilization, but with some differences determined by the national identity and the evolution of history; the complementarity of the economies of the states from the region, in certain sectors of activity; the economic, cultural and human potential; the need to develop the trade and technological flows; the impact of economic development on regional security; the increase of the negotiating power of the region within the European and world framework.

Dimensions and implications of the Eastern Partnership

The Eastern dimension represent at the beginning of the XXI century a very important component of the European Neighborhood Policy. "The Statement regarding the Eastern Partnership[8]", adopted on the occasion of the European Council in Prague (March, 2009) represents a reference element within the framework of the strategy "Europa 2020".

In order to accelerate the reform processes in the Eastern countries and for the development of the cooperation with these countries it was organized a Summit regarding the Eastern Partnership, within the larger context of the European Neighborhood Policy, with accent on the concepts of stability, common responsibility and regional security.

The Eastern Partnership is focused on the bilateral dimension of cooperation, starting from the substance of some present and potential association agreements which have as objective the establishment of free trade areas (that will liberalize the

---

[7] Nicolae Iorga, Sinteza Bizantina, Editura Minerva,Bucuresti,1972

[8] Joint Declaration of the Prague Eastern Partnership Summit, Prague, 7 May 2009, Document 8435/09 (Presse 78)

trade flows), the gradual elimination of visas and a real liberalization for labor, within the framework of concluding a “Pact for Mobility and Security”.

A common objective of the cooperation strategy remains that of energy security that can be obtained by promoting regional electricity markets, the increase of efficiency of projects and the capitalization of renewable resources.

Another dimension of the Eastern Partnership is represented by the institutional collaboration among governments, European Commission and other Community institutions, Parliamentary organizations and other political-diplomatic and economic institutions. Such a collaboration is first of all aimed at orienting the business environment towards viable projects by means of providing technical and financial assistance at a community and international level.

The full integration of the countries from the South-East European geo-economic and strategic space into the European Union architecture, and implicitly in the world economic circuit determines for the European Union new responsibilities regarding a better evaluation and identification of viable options for solving the challenges of globalization by means of a better harmonization of the economic, political and diplomatic options in order to overcome external shocks which were amplified by the economic and financial crisis.