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

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CONTENTS

CHANGES IN EUROPEAN POLICIES NEED TO REFORM THE EU BUDGET

Maria Stănescu[1]

Abstract

The European Union's policy agenda is in a phase of profound modernisation. globalisation has brought about new challenges and issues like climate change, energy and migration have come to the centre of the European debate. Innovation, skills and the right business environment are more than ever at the core of the growth and jobs strategy. Citizens' desire to see European interests and European values projected worldwide has never been stronger. Enlargement has reinforced the need to promote social, economic and territorial cohesion.

Keywords: European budget, policy objectives, VAT, budget revenues.

JEL Classification: H, H6, H61

The budget is an important lever for the EU to deliver existing policy goals, to bring about change and to maximize the long-term impact of EU action.

The budget review is a unique opportunity for a thorough assessment of the EU budget and its financing, free from the constraints of a negotiation on a financial framework. It will take a long time horizon, to see how the budget can already be shaped to serve EU policies and to meet the challenges of the decades ahead. It will therefore not propose a new multi-annual financial framework for the period from 2014 – this task will be for the next Commission – nor the overall size and detailed breakdown of the EU budget. It will rather set out the structure and direction of the Union's future spending priorities, assessing what offers the best added value and most effective results. It will also examine how the budget works, how to get the right balance between continuity and responding to new challenges, and whether it should be managed differently. Finally, the review will take a fresh look at the best way of providing the resources necessary to fund EU policies.

The budget has proved a key instrument to realize the European Union's policy objectives. It represents an investment to further Europe's goals – and citizens expect and deserve the best possible return for that investment. This means ensuring that the budget is targeted to best effect, managed to the highest standards, and that it succeeds in bringing tangible improvements to the daily lives of citizens. That means a budget able to change to reflect changing priorities, and to accompany the process of European integration as it evolves.

[1] Maria Stanescu is at the Romanian American University in Bucharest. Email: cristina_voinea21@yahoo.com

1. The Budget as a tool for changing priorities

EU policies have seen huge changes over past decades, and the budget has sought both to promote and reflect that evolution.

The EU budget has mirrored the key steps of European integration. The Single Market, enlargement, the growth of a global vision for Europe – such developments have always required shifts in the pattern of EU spending. 2008 will see another step in this path, as for the first time, policies specifically geared to growth and jobs will take the largest share of the EU budget.

The profile of EU spending has changed considerably over time: historically, the vast bulk of the EU budget has been concentrated in a relatively small number of policy areas. But both within and beyond these areas, the focus of spending and the policy objectives pursued have evolved. Budget reform always faces an inbuilt conservatism. But despite the political challenge of budget reform, significant changes and reorientations have been possible – even if the speed of response has sometimes lagged behind.

The structure of the budget as well as its size has continuously evolved:

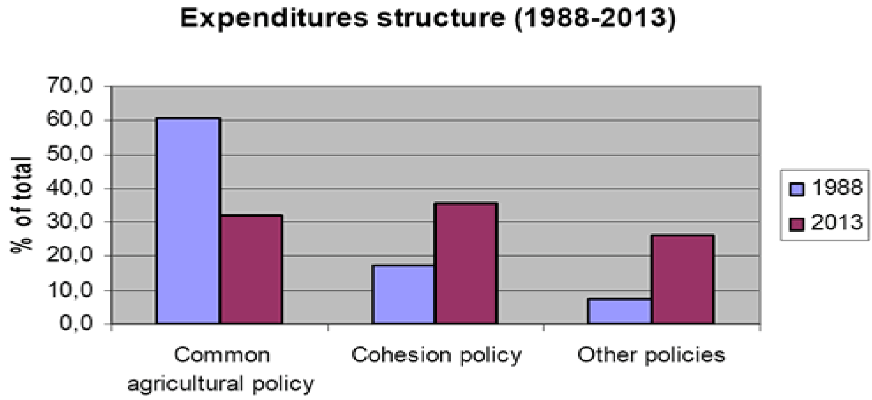
1. At the beginning of the integration process, each of the three European Communities had specific budgets. The first budget of the European Economic Community (EEC) was very small and covered exclusively administrative expenditure. The 2007 general budget is mainly an operating budget, authorising payment appropriations at a level of €115.5 billion for sustainable growth, the preservation of natural resources, citizenship, freedom security and justice and the Union's external action.

2. In 1965, payments for the Common Agricultural Policy (CAP) absorbed 35.7% of the budget and rose to 70.8% in 1985. In the first year of the 1988-1992 financial framework, CAP expenditure still represented 60.7% of the budget. By 2013, the share of traditional CAP spending (excluding rural development) will have almost halved (32%), following a decrease in real terms in the current financing period.

3. Only 6% of the European budget was spent on cohesion policy in 1965, a share which increased only slightly until the 1980s (10.8% in 1985). The Single European Act put a new emphasis on economic and social cohesion and was accompanied by a significant increase of cohesion spending. The amounts earmarked for structural actions had already risen to 17.2% by 1988, and will represent 35.7% of the EU budget in 2013, with at least two-thirds earmarked for competitiveness, growth and jobs.

4. Funding for other policies (mainly related to competitiveness, external actions and rural development) was originally very limited. In the first financial framework only 7.3% of the budget was reserved for these areas. But the new emphasis on economic development and competitiveness will see the share of such policies rise to 26% in 2013, of which 10.2% for competitiveness, 6.3% for external actions and 7.3% for rural development.

Graphic 1 Expenditures structure the UE Budget 1988-2013

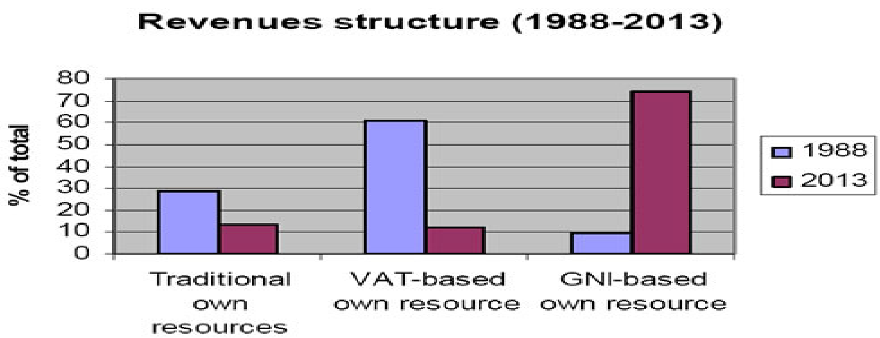


The spending policies for the period 2007-2013 put a new emphasis on the goals of growth and employment and on new policy directions such as freedom, security and justice. At the same time, the decision to undertake a review acknowledged that a more fundamental assessment is needed, to offer a long-term context to inform proposals for the next financial framework and beyond. The challenge is to develop a budget for the future, anticipating tomorrow's challenges in a world of rapid change.

2. The EU Own Resources System

The main source to finance the EU budget is now a resource based on the Member States' gross national income. This has grown to surpass the other sources, customs duties and agricultural levies ("traditional own resources"), and a resource based on a value added tax base. The own resources system has evolved significantly since the beginning of the first financial framework. In 1988, the GNI resource made up less than 11 % of EU financing, compared to 28 % provided by custom duties and agricultural levies and 57 % by the VAT-based own resource. In 2013, the GNI resource will provide about 74 % of the EU financing, against 13 % for customs and agricultural levies and 12 % for the VAT-based resource.

Graphic 2 Revenues structure the UE Budget 1988-2013



The sources and mechanisms of funding the EU budget should ensure an adequate funding of EU policies. They should be judged against commonly agreed principles such as economic efficiency, equity, stability, visibility and simplicity, administrative cost-effectiveness, financial autonomy and sufficiency. None of the funding sources of the EU budget satisfies all of these principles to the same extent, and it is difficult to conceive an "ideal" funding system. However, the resources structure should seek to comply with the most important funding principles to the greatest possible extent, while minimizing negative effects from the perspective of other relevant principles. To achieve that objective, choices have to be made on the principles and their relative importance.

Although the current system has succeeded in providing sufficient resources to finance the EU budget, there is nevertheless a continuous debate about whether the source of funding could be improved in order to better comply with the relevant financing principles. The two largest sources of revenue – the VAT and GNI based own resources – display many of the characteristics of national contributions and are often perceived as such. They are provided by national Treasuries and are sometimes presented as an expenditure item in national budgets. As a consequence, Member States often tend to judge EU policies and initiatives in terms of returns compared to their national contributions, rather than looking first at the overall value of pursuing certain policies at the European level.

The overall composition of the Union's own resources system will thus be an important element to be examined in the context of the review.

3. Conclusions

The budget review is a real opportunity for the EU to reflect on how they use one of its most important tools that has a direct impact on Europeans as citizens, consumers of the EU and taxpayers. More importantly, this logic, alongside the increasing focus placed on a narrow 'accounting' approach with the main objective of maximising returns, has led to tensions between Member States and has coloured the public debate about the value of EU spending and the benefits of EU membership itself.

Against this backdrop, the review will take a close look on whether and to what extent the various correction mechanisms which have emerged and their underlying principles are still justified. A consensus on spending priorities could already facilitate a reform of the EU own resources system It is also in this context that possible alternative own resources should be examined very carefully, taking into account the national sovereignty on fiscal policy and, for instance, the cross-border mobility of some tax bases and the impact of such resources on related EU policies.

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UNIVERSITY – INDUSTRY COOPERATION IN CENTRAL AND EASTERN EUROPE: A COMMON PAST, A DIFFERENT FUTURE?

Cristina Şerbănică[1]
Gabriela Drăgan [2]

Abstract

The aim of this paper is to map the position of the Central and Eastern Europe (CEE) region for university – industry cooperation in research and development. (R&D) To meet this goal, we use the Global Competitiveness Index 2011 database and consider those indicators describing the knowledge production and the knowledge absorption potential of 142 participating countries. Based on a discriminant analysis, we classify the countries and synthesize their performances for the selected indicators. The results confirm our hypothesis regarding the heterogeneity of the CEE countries' performances for university – industry cooperation and identifies the factors that explain the variations.

Keywords: university – industry cooperation, CEE region, Global Competitiveness Index 2011, discriminant analysis

JEL Classification: O3

1. Introduction, CEE Countries' R&D Profiles

Despite the fact that 'the transition is over' for Central and Eastern European (CEE) countries that joined the EU in 2004 and 2007 (Alam et al., 2008), a significant number of constraints to innovation and development trajectories still remain. According to Koschatzky (2002), during the socialist period, these countries were characterized by a linear innovation model according to the soviet-type science push mode. This tradition survived the collapse of communism too and policy actions during the 1990s are good examples of the linear innovation model, where the underlying idea is that policy should focus on commercializing the results of the R&D system. As a result, the CEE countries have failed to capitalize on their science – base, despite potential large assets in terms of the R&D labour force and policy initiatives aimed at enhancement of science – industry linkages (Radosevic, 2011).

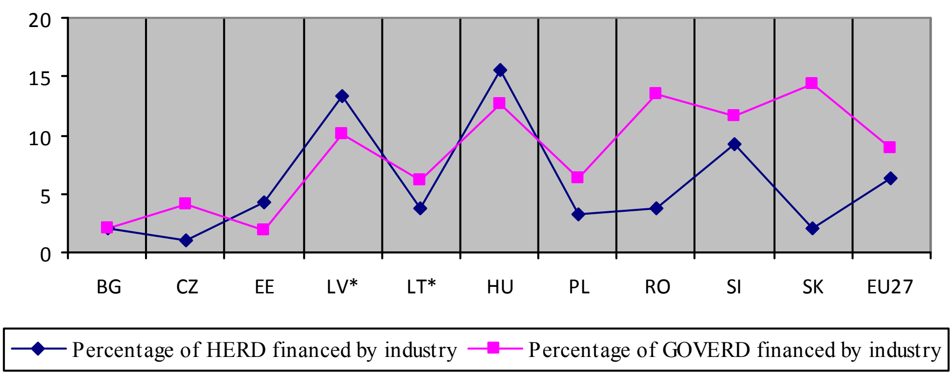
Despite their common past, CEE countries have nowadays a very heterogeneous profile for university – industry cooperation agreed indicators: funding flows (industry funding in Higher Education R&D Expenditure - HERD - and Government R&D Expenditure - GOVERD), CIS data and bibliometric analyses.

[1] PhD Lecturer in Business Communications, Constantin Brancoveanu University in Pitesti, Romania. Postdoctoral student of the Academy of Economic Studies in Bucharest, cpantelica@yahoo.co.uk
[2] PhD Professor at the Faculty of International Business and Economics, Academy of Economic Studies; general director of European Institute of Romania, Bucharest, gabriela.dragan@rei.ase.ro

In what it concerns *funding flows*, in Hungary firms fund research activities both at universities and public research organizations to a notably extent: in 2009, 15,52% of higher education expenditures on R&D (HERD) had been financed by firms, more than double of the EU27 average (6,38%) and 10 times higher than in the Czech Republic (1,05%). As regarding the % of GOVERD financed by industry, Slovakia (14,35%) and Romania (13,52%) are the performers, with percentages significantly higher than the EU 27 avg. (8,81%), indicating thus a concentration of R&D in public research organizations (PROs) (OECD, 2011; EC, 2011) (**Fig. no. 1**).

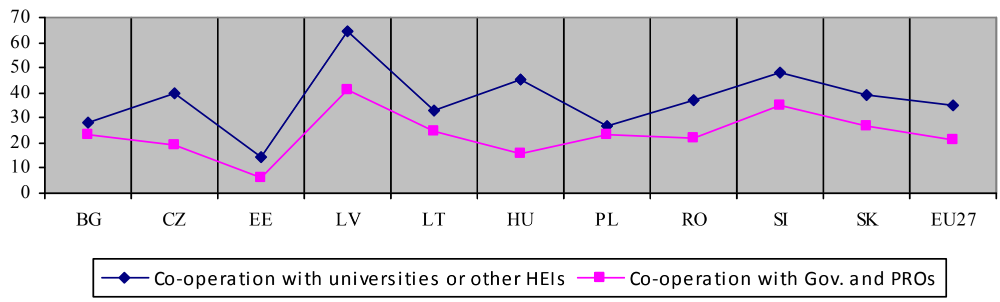
The frequency of *innovative firms cooperating with universities* is the highest in Latvia, where 64,2% of enterprises with technological innovations collaborate with HEIs; in contrast, only 14,5% of Estonian firms have such collaborative engagements. As regarding the % of *innovative firms cooperating with PROs*, we can observe it is much lower than the % of innovative firms cooperating with universities for all the CEE countries, so that we can suppose a predominance of non – R&D collaborative engagements (CIS, 2008) (**Fig. no. 2**).

Fig. no. 1 Knowledge circulation by funding flows in CEE countries, 2009



Source: *OECD Science, Technology and Industry Scoreboard 2011; Innovation Union Competitiveness Report 2011*. *Latvia (LV), Lithuania (LT) – 2006

Fig. no. 2 - % of enterprises with technological innovations cooperating with HEIs and PROs, 2006 - 2008



Source: *Community Innovation Survey 2008*

Finally, bibliometric analyses also suggest a high heterogeneity in the CEE group: while Slovenia has reported 51 public – private co-publications per million population, Bulgaria, Latvia, Lithuania and Poland have each reported less than five similar co-publications (EC, 2011).

According to Formica, Mets and Varblane (2008), the lack of knowledge flows between universities and enterprises in CEE countries has at least two explanations: on the one hand, there is a low innovation literacy of business, which cannot formulate its own ideas or find sophisticated partners and is not open to cooperation; on the other hand, one has to recognize the unsatisfactory business literacy level of academic society, with its accompanying inability and unwillingness to offer cooperation.

As regarding the *supply-side constraints*, generally speaking, the role of universities in CEE post-communist countries is weaker than in more developed countries of the EU. According to Gál and Ptaček (2011) before 1989, universities were much focused on teaching, while both basic and applied research was mostly concentrated in academies of sciences or in applied research institutes in industry. After 1990s, the situation did not change so much and universities were mostly facing the pressure of the state to increase their educational role. Nowadays, according to Erawatch country reports (2011), the main challenges in the knowledge production function are related to **institutional policies** (*high degree of institutional fragmentation* – Bulgaria, *moderate attention for economic impact and exploitability of knowledge in research quality assessment* - Estonia, Hungary, *fragmented support for RTDI, without understanding of demand for knowledge* – Hungary, *lack of competitive culture in science and research* - Poland), **human resources** (the *"brain-drain" phenomenon* - Bulgaria, Romania, *the low number of researchers* or *HRST* - the Czech Republic, Hungary, *shortage of high quality, industry – relevant skills* - Lithuania), **research infrastructures** (*underdeveloped research and innovation infrastructures* - Bulgaria, *lack of funding for the modernisation of the research infrastructure* - Hungary, *poor perspective of significant improvement of research infrastructures to attract young researchers* – Romania and **R&D funding** (*inefficient distribution of funds* - Bulgaria, *continuing generic support to all R&D disciplines disregarding excellent disciplines, institutes, teams and national thematic R&D priorities* - The Czech Republic, Slovakia, *inefficient incentives leading to a further national tailing off in terms of research and innovation output quality and quantity* – Latvia). To these one can add the risks of abandoning or delaying the reforms due to political instability (Hungary, Poland), the insufficient policy coordination (Slovenia) or the lack of mechanisms based on stakeholder involvement to identify drivers for knowledge demand (Lithuania).

As regarding the *demand-side constraints*, the capacity to generate demand for innovation is the weakest aspect of the national innovation capacity of the CEE countries in the EU. As for example, in the Czech Republic, innovation activities are restricted to a few larger enterprises or to micro- or small newly established firms, while local universities remain indeed an important source of qualified labour, yet not of exploitable research results (Žižalová, 2010). In Hungary, undergoing transformation and the process of privatization did not make companies hungry for innovation; as a result, a very limited number of companies regard universities as crucial partners in innovation (Inzelt, 2004). In Romania, as confirmed by the analyses that backed the Regional Innovation Strategies (RIS), universities and industry experience significant gaps in their cooperation that are mainly sourced by the lack of resources for R&D, an unclear or inappropriate offer of R&D providers, poor managerial skills of researchers, a lack of awareness regarding the benefits of research and innovation and, more important, the lack of an innovation culture among SMSs (Serbanica, 2011). As regarding Slovenia, while there is intense co-operation between Slovenian research institutes and companies, the level of co-operation between university institutes and industrial firms remains below the average and the innovation system is still fragmented (Koschatzky, 2002). In this respect, it should be noted that most of CEE countries still have *a low technology profile* (Bulgaria, Romania), *a low proportion of research in high technology intensive sectors* (the Czech Republic, Estonia), *weakly developed sector of industrial production* (Latvia), *no clearly focused entrepreneurship policies* (Estonia), *belated recognition of potential for service innovation* (Lithuania) and *lack of an innovation culture in the economy*, especially at the SMEs level. Not at least, the macroeconomic pressures exacerbated by the global economic crisis in 2008, together with the cut of government expenditures in view of the budget deficit have brought additional risks and threats to CEE countries' RDI profiles (Erawatch country reports, 2011). The survey that backed the *Global Competitiveness Report 2011-2012* (Schwab, 2011) provides information on the potential for the research base to co-operate with industry. As shown in *Annex no. 1*, there are significant disparities between CEE countries in respect to *university – industry collaboration in R&D,* with the Czech Republic and Lithuania on the top of the list and Romania and Bulgaria at the end on the ranking.

The main argument of this paper is that CEE countries should not be approached as a homogenous group in policy-making, despite some significant similarities in their common communist past. Consequently, our research goal is to classify CEE countries into homogenous groups, while evidencing the factors that contribute significantly to fostering university – industry cooperation. To this end, we have used the data that backed the Global Competitiveness Report 2011 and conducted a discriminant analysis, due to its advantages in both synthesizing a set of variables and expressing the relationships between them.

2. Research framework

Data for computation of the Global Competitiveness Index (GCI) were drawn from two sources: international organizations and national sources and the Executive Opinion Survey, with a total of 13,395 respondents from 142 countries in 2011. The GCI includes a weighted average of many different components that were grouped into 12 pillars of competitiveness: institutions, infrastructure, macroeconomic environment, health and primary education, higher education and training, goods market efficiency, labour market efficency, technological readiness, financial market development, market size, business sophistication and innovation. Whitin each pillar, performaces of the 142 participating countries are ranked separately for each component.

The dependent variable in our analysis - "**University – industry collaboration for R&D**" - was included in the *Innovation* pillar, together with other determinants such as the capacity for innovation, quality of scientific research institutions, company spending on R&D, government procurement of advanced technologies, availability of scientists and engineers and utility patents granted per million population. In line with the literature that investigates the determinants of university – industry collaboration (Polt et al. 2001; Holi, Wickramasinghe and van Leeuwen, 2008; Mathieu, 2011) and considering the fact that *a strong innovation capacity would be very difficult to achieve without a healthy, well-educated and trained workforce that is adept at absorbing new technologies and without sufficient financing for R&D or an efficient goods market that makes it possible to take new innovations to market* (Schwab 2011, p. 8), we decided on a set of **independent variables** describing the knowledge production and knowledge absorption capacities, but also the presence of an enabling environment (*Table no. 1*). Within each category, we have looked for above 0.80 correlations and deleted two variables that were initially selected, namely *business sophistication* and *capacity for innovation* (that were highly correlated with *company spending on R&D*). The remaining variables are presented below.

Table no. 1 – Study's variables

Category	Name	ABBREV.	GCI description
DEPENDENT VARIABLE			
University-industry collaboration in R&D		UI_links	To what extent do business and universities collaborate on research and development (R&D) in your country? [1 = do not collaborate at all; 7 = collaborate extensively]
INDEPENDENT VARIABLES			
KNOWLEDGE PRODUCTION CAPACITY	**Higher education and training**	HE	Quantity of education + Quality of education + On-the-job training
	Quality of scientific research institutions	Science_qual	How would you assess the quality of scientific research institutions in your country? [1 = very poor; 7 = the best in their field internationally]
	Availability of scientists and engineers	Scientists	To what extent are scientists and engineers available in your country? [1 = not at all; 7 = widely available]
KNOWLEDGE ABSORPTION CAPACITY	**Company spending on R&D**	R&D_spending	To what extent do companies in your country spend on R&D? [1 = do not spend on R&D; 7 = spend heavily on R&D]

ENABLING ENVIRONMENT	**Government procure-ment of advanced technology products**	Gov_procure-ment	Do government procurement decisions foster technological innovation in your country? [1 = no, not at all; 7 = yes, extremely effectively]
	Intellectual property protection	IP_protection	How would you rate intellectual property protection, including anti-counterfeiting measures, in your country? [1 = very weak; 7 = very strong]
	Venture capital availability	Vent_capital	In your country, how easy is it for entrepreneurs with innovative but risky projects to find venture capital? [1 = very difficult; 7 = very easy]

A discriminant analysis was further carried out to classify the performances of world's 142 countries for university – industry collaboration in R&D and to identify those variables contributing most to groups' separation. Given our research purpose, only CEE countries' performances were then subjected to in-depth analysis.

According to Burns and Burns (2008), discriminant analysis involves the determination of a linear equation like regression that will predict which group the case belongs to. The application of the discriminant analysis implies checking up hypotheses regarding the normality of multivariate distributions in the predictor variables, the absence of multi-collinearity and the homogeneity of variances within each group. At the same time, group sizes of the dependent variable should not be grossly different. Consequently, as collinearity and homogeneity diagnostics are automatically computed in the SPSS discriminant analysis output, we only assessed the normality of the individual metric variables and eliminated one multivariate outlier case (Mozambique). Simultaneously, we have plotted each independent variable against all other independent variables in a scatterplot matrix and observed multiple linear relationships between the variables.

The discriminant variable (G3) by which we divided the countries in three equal groups was *university – industry collaboration in R&D*. To meet the main precondition in discriminant analysis - the presence of a non-metric dependent variable -, we treated the discriminant variable G3 as categorical and named the three groups according to their performances: *leaders (Group 1), followers (Group 2) and non-performers (Group 3)* in university – industry collaboration.

Since the purpose of this analysis is to identify the variables that do significantly differentiate between the three groups, the stepwise method based on Mahalanobis distance (D^2) method was appropriate. The test F for Wilks's Lambda was significant for all independent variables (sig. smaller than 0.05), with *quality of scientific institutions* and *R&D spending* producing very high values of F's (*Table no. 2*). These ANOVA results indicate significant group differences on each of the independent variables and justify further analysis.

Table no. 2 - Tests of Equality of Group Means

	Wilks' Lambda	F	df1	df2	Sig.
HE	,412	98,305	2	138	,000
Science_qual	,224	238,927	2	138	,000
Scientists	,590	47,966	2	138	,000
RD_spending	,351	127,407	2	138	,000
Gov_procurement	,583	49,317	2	138	,000
IP_protection	,476	75,873	2	138	,000
Vent_capital	,682	32,234	2	138	,000

As resulted from our SPSS 17 computation, the highest eigenvalue corresponds to the first discriminant function (3,888) that accounts in a ratio of 97,3% for the dispersion of the group means, as compared to the second function that accounts for only 2,7% of dispersion. At the same time, since the probabilities of the chi-square statistic for Wilks' lambda tests are significant (,000 and ,003), we can conclude that there is at least one discriminant function to separate the groups of the dependent variable (*Table no.3)*.

Table no. 3 – Eigenvalues and Wilks' Lambda

Function	Eigenvalue	% of Variance	Cumulative %	Canonical Correlation
1	3,888[a]	97,3	97,3	,892
2	,107[a]	2,7	100,0	,311

a. First 2 canonical discriminant functions were used in the analysis.

Test of Function(s)	Wilks' Lambda	Chi-square	Df	Sig.
1 through 2	,185	230,519	8	,000
2	,903	13,915	3	,003

The appropriateness of using the covariance matrix in computing classifications is evaluated by the Box's M statistic. Since Box’s M significance is above the alpha level, we can conclude that the analysis meets the assumption of homogenity of variances (*Table no. 4*).

Table no. 4 - Test Results

Box's M		15,218
F	Approx.	2,483
	df1	6
	df2	474635,077
	Sig.	,021

Tests null hypothesis of equal population covariance matrices of canonical discriminant functions.

Pearson coefficients (determinant loadings) are presented in the Structure matrix in *Table no 5* and they should be interpreted like factor loadings in factor analysis. By identifying the largest loadings for each discriminate function the researcher gains insight into how to name each function (Burns and Burns, 2008). The *quality of scientific institutions* has the highest discriminaning loading in the first discriminant function, while *higher education and training* and the *availability of scientists and engineers* are correlated with the second one.

Table no. 5 - Structure Matrix

	Function	
	1	2
Science_qual	,944*	-,097
RD_spending	,689*	-,092
IP_protection[a]	,543*	,083
Gov_procurement[a]	,349*	-,033
Vent_capital[a]	,346*	,172
HE	,593	,740*
Scientists	,413	,549*

*. Largest absolute correlation between each variable and any discriminant function

a. This variable not used in the analysis.

The summary table of variables entering and leaving the discriminant functions is shown in *Table no. 6*. Four out of our seven predictor variables, namely *quality of scientific institutions* (science_qual), *availability of scientists and engineers* (scientistis), *company spending on R&D* (RD_spending) and *higher education and training* (HE) – are useful in differentiating between performances in university – industry collaboration in R&D.

Table no. 6 - Variables Entered/Removed[a,b,c,d]

		Min. D Squared					
				Exact F			
SStep	Entered	Statistic	Between Groups	Statistic	df1	df2	Sig.
1	Science_qual	4,190	2 and 3	98,459	1	138,000	7,582E-18
2	Scientists	4,524	2 and 3	52,766	2	137,000	1,020E-17
3	RD_spendin g	4,902	2 and 3	37,845	3	136,000	7,576E-18
4	HE	4,903	2 and 3	28,177	4	135,000	5,105E-17

At each step, the variable that maximizes the Mahalanobis distance between the two closest groups is entered.

a. Maximum number of steps is 14.

b. Maximum significance of F to enter is .05.

c. Minimum significance of F to remove is .10.

d. F level, tolerance, or VIN insufficient for further computation.

The classification output indicates that 81,6% of the original grouped cases were correctly classified (*Table no. 7*) that means they were included in the group to which they actually belongs. Consequently, the model can be generalized.

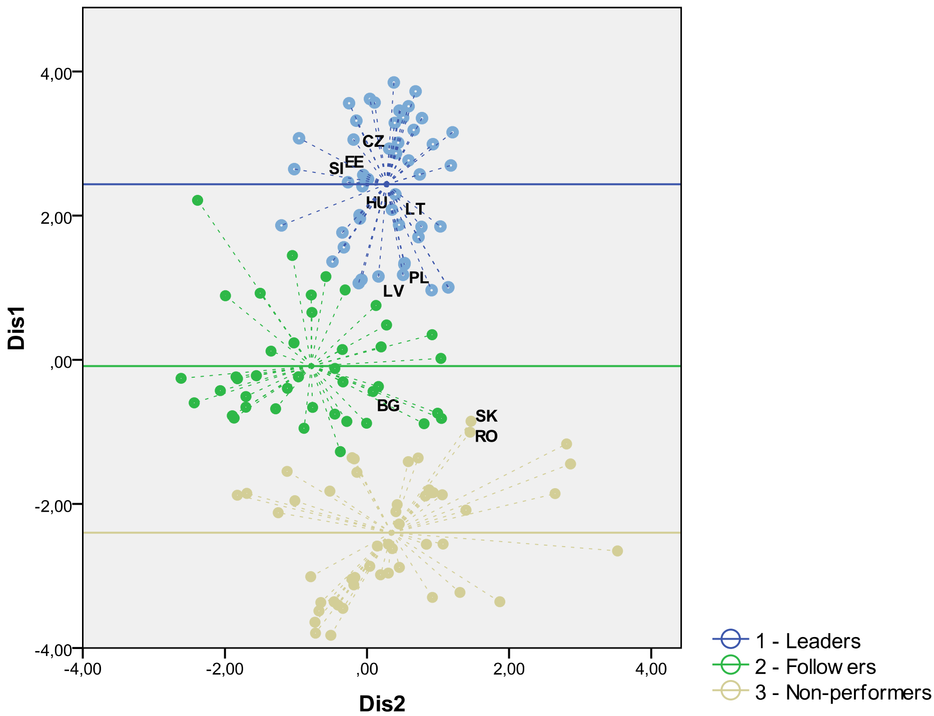
Table no. 7 - Classification Results[a]

			Predicted Group Membership			
		Groups	1	2	3	Total
Original	Count	1	43	4	0	47
		2	7	32	8	47
		3	0	7	40	47
		Ungrouped cases	0	0	1	1

%	1	91.5	8.5	.0	100.0
	2	14.9	68.1	17.0	100.0
	3	.0	14.9	85.1	100.0
	Ungrouped cases	.0	.0	100.0	100.0

a. 81.6% of original grouped cases correctly classified.

Fig. no. 3 - Predicted group membership



SI, EE, CZ – *Top leaders*, HU, LT – *Leaders,* PL, LV – *Top followers*, BG, RO, SK – *Non-performant followers*

Fig. no. 3 synthesizes countries' positions in relation to the two discriminant functions, while introducing the predicted group membership for the CEE countries. As separate group covariances were used in the discriminant analysis, countries' results should be interpreted in relation to their group's centroid. Given their above the mean position in the Leaders' group, the Czech Republic, Estonia and Slovenia were classified as *Top leaders*, while Hungary and Lithuania have kept their *Leaders'* status. Poland and Lithuania are very close to each other in the space between the centroids of the first and the second group so that both of them can be classified as *Top followers*. Finally, even if Bulgaria distances itself from Romania and Slovakia due to a better position for the quality of scientific institutions, its overall performance justifies its inclusion in the *Non-performant followers'* group (together with Romania and Slovakia). The *Annex no. 1* can help interpreting the final results: as compared to the initial classification, Slovenia has reinforced its position within the Leaders' group and joined the *Top leaders'* category for its high performances in the quality of scientific institutions, company spending for R&D and higher education and training. At the same time, despite a modest score for university – industry cooperation for R&D, Poland has been classified as a *Top follower* due to its relatively high performances in the quality of higher education and scientific research. Not at least, it should be noted that Slovakia and Romania are quite far (up) from the third group centroid so they can also be included in the *Followers'* group.

3. Conclusions and discussions

This study was aimed at classifying world's countries for their performance in university – industry cooperation in R&D and at mapping the position of the CEE region in this respect. The results have confirmed our hypothesis regarding the heterogeneity of the CEE countries' performances and have identified the factors that explain the variations, namely *the quality of scientific institutions*, *company spending on R&D*, *the quality of higher education and training* and *the availability of scientists and engineers*. Consequently, policies that address knowledge transfer issues are expected to be more efficient if they consider the characteristics of predicted groups for the above-mentioned variables.

CEE's *top leaders* - the Czech Republic, Estonia and Slovenia - have high scores for both the quality of scientific institutions and company spending on R&D. In this respect, their relatively high R&D intensity support performances in knowledge transfer: Slovenia leads the CEE group for the total gross expenditures for R&D (GERD) as % of GDP (2,11 in 2010) and makes important steps towards the EU 3% target, while Estonia (1,62 % of GDP) and the Czech Republic (1,56 % GDP) get closer to the EU27 average of 2% of GDP (Eurostat 2012). According to Erawatch report (Bučar 2011), over the years, Slovenia has built relatively extensive R&D, innovation and entrepreneurship support network and has introduced a new system of financing public research, requiring the public research organizations to increase the share of business funding. The measure which proved to be very effective in stimulating cooperation between the public R&D and the business sector was the financing of young researchers, as they proved to be a communication link that often resulted in more intensive cooperation. In its turn, The Czech Republic have utilised the structural funds for building innovation infrastructure and environment stimulating knowledge circulation and have created a simple methodology for the knowledge and technology transfer offices, with a special emphasis to patent and license application, IP, spin offs, etc. (Hebakova and Valenta, 2011). As regarding Estonia, since the early 2000, there are a considerable number of policy measures aimed at increasing extramural R&D and support the commercialization of research by higher education institution; of these, the Competence Centres programme proved to be the most efficient, as the centres have tackled efficiently intra-university barriers to industry cooperation and have improved technology absorption on the industrial side (Rannala R., Männik K., 2011).

Despite their clear progress in knowledge transfer, all the three countries in the *Top leaders'* group still face a number of constraints: if for Slovenia the main challenges are related to monitoring closely the human resources in science and technology (HRST) stocks and finding the best coordination matrix for its extensive support network, the Czech Republic and Estonia should still consider the insufficient supply of mediation services to innovative companies and the sustainability of the new R&D infrastructure, given their dependence of public and structural funds.

Hungary and Lithuania enter the *Leaders'* category, but they stay below group's centroid. Despite its 20th position in the GCI for the quality of scientific institutions, Hungary has one of the worst scores in the CEE group for company spending on R&D (81st) (*Annex no. 1*). Even though, firms fund research activities both at universities and PROs to a noteworthy extent: 15,7% of Higher Education R&D (HERD) comes from business funding, more than double of the EU27 average of 6,8% in 2008. Among the extensive science and technology policy measures aimed at fostering academia – industry cooperation, the most important development has been the financing of 38 joint research centers, each located at a university (Havas 2011). As regarding Lithuania, it should be noted that it is among the EU27 leaders in producing tertiary education graduates, with the 26th position in the GCI for Higher education and training (*Annex no. 1*). Nevertheless, the country lags substantially with regard to the capacity to produce and commercialize knowledge, but there in a very strong commitment to fostering R&D collaboration and knowledge transfer in the Lithuanian Innovation Strategy for 2010-2020 (Paliokaitė 2011). For the future, both Hungary and Lithuania should address the fragmented technology transfer offices' system and the creation of a critical mass of competence in university knowledge transfer.

Poland and Latvia were included in the *Top followers'* category as they have a relatively high score for the quality of scientific institutions. For both countries, on a national policy level, there has been a significant push for knowledge circulation and a considerable contribution from the EU structural funds. Through the opportunities created by "Building upon knowledge" and

"Partnerships for knowledge" programs, Poland is expected to stimulate private R&D (Jerzyniak 2011), as is currently stays on the 80th position in the GCI (*Annex no. 1*). In its turn, Latvia has efficiently implemented policy measures aimed at knowledge transfer via competence centers and clusters (Kristapsons, Adamsone-Fiskovica and Draveniece, 2011), but there are still numerous problems to be solved, especially in terms of developing technological capabilities in industry and ensuring the optimal stocks of scientists and engineers, as the country currently stays on the 96th position at the global level (*Annex no. 1*).

Finally, Bulgaria, Romania and Slovakia were included in the *Non-performant followers'* category, with Bulgaria staying slightly higher due to its better position for the quality of scientific institutions (78th for Bulgaria, as compared to 91st for Romania and 97th for Slovakia). The countries have very low business expenditure R&D (BERD) intensities, ranging from 0,18% of GDP in 2010 for Romania (eight times lower than the EU27 average of 1,23% GDP) to 0,27 for Slovakia and 0,3 for Bulgaria. As regarding Bulgaria, the most compelling factors behind the limited flow of knowledge between businesses, universities and public research institutions are the outdated legal and institutional frameworks related to innovation and research and the predominance of state sector in R&D financing and performance (Damianova et al. 2011). Similarly, the most important trend in the Slovak research system is the decrease in industry and applied research and the increased concentration of GERD in public research institutions (Baláž 2011). Finally, in Romania, there are many gaps in the public – private cooperation legislation and universities' third mission is in its very incipient stage, with only few universities consolidating their technology transfer and commercial infrastructure and personnel (Ranga 2011).

According to Radosevic (2011), the main problem is that current policies for science-industry linkages in CEE countries are still based on the logic of linear innovation model, while the reality of these countries is based on the logic of interactive innovation model. Despite its peculiarities, science – push models can be acceptable, to a certain respect, to those countries with a high quality of scientific institutions and technological capabilities. On the contrary, in countries such as Bulgaria, Romania or Slovakia, where the knowledge production sector is ineffective and businesses do not fully understand the utility of R&D, creating an environment that is conductive to innovation for both universities and industry is the imperative precondition of knowledge transfer.

Acknowledgement

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Annex no. 1

Discriminats of university – industry collaboration in R&D in CEE countries

CEE Countries (EU27)	**Quality of scientific research institutions**	**Company R&D spending**	**Higher education and training**	**Availability of scientists and engineers**	**University-industry collaboration in R&D**
	Rank/ 142				
Bulgaria	78	98	70	92	116
Czech Republic	26	28	30	42	30
Estonia	27	40	23	62	34
Hungary	20	81	45	38	33
Latvia	56	67	34	96	57
Lithuania	37	57	26	57	31
Poland	44	80	31	67	65
Romania	91	87	55	59	115
Slovakia	97	89	53	74	104
Slovenia	33	39	21	89	46

Source: *Schwab K. (2011), World Economic Forum: Global Competitiveness Report 2011-2012, Geneva, Switzerland.*

EMPLOYMENT PACKAGE A CRITICAL ANALYSIS OF THE MEASURES PROPOSED AND THEIR IMPLICATIONS ON THE FUTURE STRATEGIES AND ECONOMIC DEVELOPMENTS AT EU LEVEL

Anca Butcaru[1]

Abstract

On the 18th of April 2012, the European Commission has launched a document named Employment Package meant to deliver solutions for regaining the competitiveness lost on the labor markets at European level. The package contains a series of documents which are setting a new vision on how to regain competitiveness on the labor markets as well as linking the EU 2020 Strategy as well as the desiderate of Internal Market completion with the view to creating a new milestone for future developments at both EU and national level.

The present article is trying to create a first x-ray of Employment Package's content by observing the strong points and the weak ones in relation to the EU2020 Strategy, completion of the Internal Market and placing it into the current political state of play at EU level in its attempt for observing the future economic and social permutations which will incur if the document will be set entirely into practice.

In the view of linking the content of the Employment Package with the main objectives and targets of the EU 2020 Strategy from the perspective of the European Social Market Economy, the article proposes to present a diagnosis of the latter concept. By this measure a new interpretation of the social component of the concept will be presented, so as to mark one of the main assumptions of this article that economic downturns did not occur just due to using wrong economic theories, but more due to a misuse of correct economic models. To this aim, the article will also analyze the implications of multi tier integration as opposed to federalization with respect to the EU architecture.

Furthermore, the Employment Package is going to be analyzed mainly from the perspective of job creation and job destruction effects, induced increase of labor demand on specific sectors, full liberalization of the labor markets and their implications in real terms. The main questions to which the article is trying to answer is whether the detailed and ambitious set of measures that are contained by the Employment Package is actually going to reverberate into practice and to which end the objectives are going to create incentives for sound and self sustainable competitive markets.

The last part of the article is going to sum up the findings on each section and draw the conclusions and build possible scenarios of action with respect to the Employment Package.

Key words: Employment Package, job creation/job destruction, social market economy, labor markets

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[1] Anca Butcaru, PhD researcher at the Academy of Economic Studies, Bucharest, works in the European Parliament as advisor to an MEP for the Employment and Social Affairs Committee. The views shown in this article are based on the researched for the final dissertation for the Phd and does not convey the views of the employer, nor the institution of the European Parliament;

JEL classification: E2, J2, J7, O3, O4

1. The content of the Employment Package

The content of the Employment Package is mainly focused on equilibrating the supply and demand of labor, the creation of labor inclusive markets that will be conducive to the completion of the Internal Market by creating inclusive yet flexible labor markets. The desiderate of the Employment Package is to respond to the competitive pressures on the European Markets coupled with the recent losses of competitiveness due to the economic contractions, the rise of emerging economies and a shift towards a new economic order that favors players with a higher degree of adaptability to technological upgrading and a better management of challenges related to: an aging population, demographic restructuring linked to migration effects in the context of a globalized economies and rapid developments of business.

The core principle related to the Employment Package is derived from art 3 of the Treaty which envisages the establishment of full employment and social cohesion. The same principle is pursued also in the EU 2020 Strategy with the view to a better economic performance and social cohesion as well as another milestone towards the completion of the Internal Market. Centralized on the economic reality of the EU, the Employment Package is a bold statement that is touching upon the downturn derived from the mismatch of supply and demand of labor as well as the necessity of liberalizing the labor markets in view of the creation of a genuine European labor market.

The two elements represent an important aspect for the scope of this paper, as they give the direction according to which a new approach is presented when the topic of labor markets is on debate, mainly the need of bridging different policies that are interdependent and they are correlated in producing effects on the future developments on the labor markets at both EU and national level. From this perspective the offer comprised in the Employment Package can be regarded as a holistic approach with respect to revigorating the economic situation in the EU as well as tackling sensitive topics related to future developments of the economic and industrial sectors, the need of reshaping and restructuring the educational systems in order to better respond to the requests of the future jobs and prepare a new generation of better skilled and more flexible workers, easier adaptable to future changes on the labor markets.

The way in which the Package was conceived is based on a general communication which is stating the general principles, goals and proposals for actions to be taken for the implementation of the goals, as well as by accompanying working documents which are providing the details on each of the main points comprised in the general document. The communication from the Commission is entitled "Towards a job-rich recovery" and as title is showing the document is focused on the catching up effects at economic level, bringing together measures that will create the right and sustainable incentives for the creation of more jobs at European Level.

The first important step in this article is to bring a correct analysis of the title itself, as it is the main provider of information related to the mainstream of the Employment Package. Without repeating endlessly what the current literature has been saying, the EU must first recognize the fact that the repercussions of economical contractions with severe reverberations in the developments of business sectors as well as impacting the level of performance and competitiveness at a global scale must be addressed. The main goal at European level is to focus on the creation of economic convergence, a goal which has been pursued for more than a decade but unfortunately has not been yet achieved. The hit of the crisis of 2008 took different shapes across the economies of the Member States and this feature is attributed on the one hand to the import of risks from one country to another, as a contamination effect, but on the other hand the magnitude of this effect was also due to the economic discrepancies that deepened with time among the economies of the EU.

These elements do not bring novelty, but the fact that the focus of the communication is based first on the idea of economic recovery and secondly on the recovery done by increasing the number of jobs with determining the clear steps needed for converging macroeconomic, educational and labor policies together, does bring a novelty in terms of structure of EU strategies.

The Employment Package is a document that comes in the support of the core objectives of the EU 2020 Strategy and complements through a better convergence of policies the aims contained by “Digital Agenda for Europe”, “Innovation Union”, “Youth on the Move”, “Resource Efficient Europe”, “Industrial Policy for the Globalisation Era” and “European Platform against Poverty and Exclusion”. The initiatives mentioned are of crucial importance to the relaunch of the EU economies, as they are interlinked and they influence each others’ outcomes. The document is identifying the niches of each initiative started at EU level and brings them together in the attempt to create a synergy that will mainly support job creation.

Although the subject of labor markets is of national competence, the document sets the general stream which if taken will convey a convergence at legislative level between Member States and will also prove a real European approach, the approach of “speaking with one voice” with respect to strategic economic development of the EU as an Internal Market.

The objectives of sustainable growth and support of the SMEs are pursued in the Employment Package by creating a correct allocation of human resources which will improve the productivity of the economic activities, of the sectors and businesses and that properly respond to the needs of the markets.[2] In support of the link with the other initiatives existing at European level, the document is also

[2] “Towards a job-rich recovery”, Communication of the European Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of Regions, 18.04.2012, COM (2012) 173 final, www.ec.europa.eu

proposing measures to ameliorate the labor market conditions by improving the situation for the low skilled workers, females, fight youth unemployment and better integrate the workers from minority backgrounds.[3] These elements point out towards the integration of vulnerable groups on the labor market. Addressing the issue of labor markets efficiency through a better integration of vulnerable groups, represents a try to maximize the target of the EU 2020 Strategy of 75% employment, as well as the desiderate of art 3 of the Treaty stating full employment. In the same time the current diagnosis of the labor force in some of the Member States, mainly the new Member States but also some from the southern dimension, points out towards the need for creating the right policies in order for the working force to be increased. The level of skills in the EU is still not at the desired level, and we are combating with a strong demographic effect of an aging society, that creates the demand for more human capital but as well for a longer active period of the working force.

The document states few measures[4] that relate to the demand of labor in support of the desired job creation:

1. targeting hiring subsidies to new hiring,
2. reduce tax wedge on labor in a budgetary neutral way
3. promoting and supporting self-employment, the social enterprise and business
4. transform informal or undeclared work into regular employment
5. boost "take home" pay
6. modernize wage-setting systems to align wages with productivity developments and foster job creation

These measures are representing the general setting for both governments and private employers in order to create a better environment for job creation, by using fiscal incentives that will lead to incentives for more hiring and also governments that need to approve the hiring subsidies in order to support the employers and above all, especially the SMEs and the microfinance units to hire and even create some jobs that otherwise will be more difficult to be created.

On the same token, the proposal for tax wedge reduction is also proposed as a measure targeting the more vulnerable groups, especially the lower skilled workers. The cut in taxes is foreseen as a measure oriented towards the lower wage jobs by reducing the employers' social security contributions and that in the long run is foreseen to enhance labor demand. The Commission is also emphasizing the drawback of an incorrect design of reduced social security contributions which will lead to deadweight costs.

Proposing a full sustainment for self employed, for the social enterprises and the business start-ups is also targeted to respond to challenges related to job creation as the three concepts can induce job creation if proper legislation is in place that can assure an appropriate economic environment where these activities can be

[3] Idem, page 3, point 1 "Support Job Creation"
[4] Idem, chapter 1.1, "Step up job creation across the economy by encouraging labor demand"

developed. In the same time, it can lead to a decrease of budgetary burden with respect to the social component of a national budget, as the unemployment rate will decrease, the contributions to the national budget will increase, and it can be also linked with the desiderate of bringing undeclared work from grey zones of the economy to declared work. The Commission is also emphasizing the need for convergent policies to be designed as support for the above mentioned objectives. One of the most important aspects is the financing opportunities that need to be tailor made for the beneficiaries of such activities. In the same time the eligibility criteria need to include the unemployed workers which can prove the level of skills and experience, the young workers that come with new knowledge and skills, as well as the women. By setting the right criteria in place, the above mentioned categories can even step out from becoming vulnerable groups, or at least the dimension of the vulnerable workers will decrease. In view of achieving this desiderate, a good connection must be established between the financial providers, the employment services as well as other public or private institutions that are consider stakeholders.

The measure proposed for the "take home" pay is also directed at low wage earners in order to gradually reduce poverty and encourage individuals to enter or return to the labor market. On the demand of labor side it is conceived that such a measure will create more jobs as long as there are no wage pressures and if low-wage traps can be eliminated.

The last measure proposed is related to reforming the wage system where there is a need to insure that the wage is designed in relation with productivity development and they are a reflection of sustained aggregate demand and of enterprises' productivity rates and local markets productivity rates.

As can be easily seen the measures stated up to this point represent a convergent approach for boosting up the productivity of labor markets through recommendations for national governments to draw policies that are mainly targeted towards what the Commission considers vulnerable groups. In line with the concepts presented above, one conclusion is that the Commission puts emphasis on reducing the effects of nonparticipation to the labor market of vulnerable groups as a key component in the decrease of competitiveness of European labor markets.

In order to link the measures proposed for enhancing labor demand, the Commission has elaborated a roadmap of sectors that are regarded as being the sectors with the most rapid development in the future as well as becoming the resources for job creation.

In this respect the Commission has listed three mean areas of interest. The first are for future job growth is foreseen in the green economy with a perspective of 5 mill jobs created until 2020[5]. The area of green jobs is in total sync with one of the main targets of the EU 2020 Strategy which is still requesting reaching the level of low carbon economy as an objective of attaining a higher level of competitiveness. In order of obtaining a smooth transition from the current business architecture within

5 "Exploiting the employment potential of green growth", Commission Staff working document, SWD (2012) 92 final, page 8

the economies of the EU, the Commission mentions the need for adapting the skills of the current labor force to future developments. The areas of jobs in the green economy is presented by the Commission as being not only the renewable or energy efficiency sectors, the expansion comprises the building industry that is also seen to shift towards new technologies related to the renewable sector, the car industries that is seen to shift towards the hybrid manufacturing that will replace the production of the traditional cars, as well as carbon capture and storage. The figures given in the document amount to 3 million jobs to be created by 2020 in the renewable energy, however it does not give estimates for the other derived sectors mentioned above in terms of job creation. The requirements for the 3 million jobs that will potentially be created are also clearly marked. The emphasis is put on the benefit for the high-skilled workers that will be the first ones that can address to the job requirements. The medium skilled workers that could be attracted by the search of a job in this sector are considers to be secondary beneficiaries and bind to a constant reqalification for maintaining their skills up to date. The low skilled workers are the third beneficiary of those jobs as they are considered to be the ones suited for the new building renovation sectors where there can be suitable for occupying vacancies. However, even in the last mention sector, the accent is pt on highly skilled workers predominantly with secondary and tertiary education degrees mainly architects, engineers, designers, auditors, etc.

The second area that mentioned by the European Commission is the area of white jobs mainly the health sector. With a severe demographic problem in the EU and an increasing aging population the demand of labor in the health sector is regarded as expanding. The figures for 2010 show that 9.9% of the total EU employment was taken just by the workers in the health sector. The projections for 2060 are that the population aged over 65 years will increase to 151.5 mill and the ones around 80 years old will touch the level of almost 62 mill. At the same time there is a concern raised regarding child care and the reconciliation of career life with family life that can also be an option in addressing the demographic challenge in Europe.

The third area is the area of ICT. The growth of an annual 3% in the number of professionals in the ICT sector is setting the signal that the competitiveness of the European economies is completely dependant on the upgrading of the European workers in order to best perform in the future competitive requirements. From this point of view the European Commission has identified the main features that the economies will need to consider as priorities. First aspect is related to a low choice of young people towards studying and choosing an ICT career at EU level. Another aspect is related to the high costs regarding the reorientation of mid-career jobseekers towards the ICT sector. Mainly this measure is considered to be targeting the professionals educated in complementary areas that already hold the basic knowledge but lack the formal education in the ICT field. The last main priority is the prevision according to which the changes in the composition of business as explained also within the presentation of the former two main areas of potential job creation will be conducive to the re-alliteration of the workers, present and future, into the ICT skills. The rise for labor demand in the ICT sector is also regarded as a safeguarding clause against increased unemployment rates. The link between the alliteration of workers into ICT sectors with a decrease in the negative aspects of employment trends is seen from the perspective of the convergence of specific skills and knowledge for different sectors with the ICT ones. From this point of view, the lack of ICT knowledge and skills will be a precondition for medium-skilled workers to become harder to employ, as a consequence, the ICT skills and knowledge are not considered to remain in the category of high skills, but to become a basic skill in order for an individual to become employable. The document is giving more information through the accompanying documents that will all be referenced in the bibliography for the readers that wish to consult the details of the above mentioned facts. In the same time the document is targeting and offering policy recommendations that will support the Commission's view comprised in the main document "towards a job-rich recovery". However for the scope of this paper, the main aspects that are scrutinized are related to the three areas for job creation with respect to following economic development within the EU, to the main starting point for drafting this document which is the obtainment of more flexible and inclusive labor markets as well as with respect to one of the core values of the EU which is the social market economy.

2. Social market economy – between origins and current understanding

The emergence of the concept dates back to Germany after the Second World War. The territories of post War Germany war under reconstruction but also under the influence of different economic schools of thought. One main starting point for this debate was the creation of a common position for the Bizone, the territory managed by both the USA and UK in terms of economy, supply, post, finance and transports.[6] The problem of finding a common economic approach did pose a burden as on the one hand the pro centralization Labor view given by the UK was quite in a clash with the American view on a more decentralized administration aiming at the dismissal of German commercial cartel concentrations. When a compromise view was created there are two important steps which were created: 1. a law regarding the monetary reform, with a main focus on the Deutsche Mark as the only currency. The monetary reform started in 1948 was aiming at reaching a sustainable economic environment for the devastated country, reducing the inflation rate and the resolution of the public debt obtained by the Nazi regime. Additionally to this law a second law was passed with respect to the liberalization of prices through means of production. The second law aimed at an irreversible process

[6] Sylvain Broyer, "The Social Market Economy – Birth of an Economic Style", Social Science Research Center Berlin, August 1996

towards a market economy as being a means to support the monetary reform. The concept of social market economy was first formulated in 1947 by Alfred Müller-Armack. Based on a translation from german, the definition of the concept is: "refers to an economic and political order, which is designed on the basis of the rules of market economy, that is however enriched with institutionalized assured social complements limiting the negative consequences of a free market economy with legislative instruments aiming to fight economic concentration and misuses of power."[7] The view is conceived into the historical analysis of economics as the Ordoliberalism, and is based on the views related to the industrialization development of Germany. The Ordoliberalism can be regarded as a counter position to the decedents of total liberalization, as it was understood by the exponent thinkers and conceivers of the school as a socio-economic order that can enjoy the benefits of the free markets should not become also the limitation of the economic developments. The economic behavior of markets with respect to the formulation and shaping of different forms of markets can become the limitation for enjoying the benefits of liberalization, under the Ordoliberalism view. With other words, the liberalization of the economy can enhance productivity, competitiveness as long as the governance is guarding over the forms of behavior of both markets and economic agents, in such a way that will enhance fair competition and counteract the formation of industrial monopolies or cartels. Without getting too much into the historical details related to the school of thought of this German Neoliberalism, one can easily conclude that the core principles of the concept were related to establishing fair rules of competition where agents and markets can produce and purchase goods and services with the view to enhancing a stable economy. However, one question remains pending. Which is and where is the social component in this description? Or better formulated what does the social component comprises?

There are three currents of thinking with respect to the social component of the concept. One was the libertarian Hayek which considered that no form of social aspect could go hand in hand with the development and establishment of a market economy.[8] This rather radical view had its origin in the belief of a complete incompatibility between market systems and social measures. A second opinion was formulated by Alfred Müller-Armack that saw the social component as a responsibility of the state with respect to general goods and mainly for the reconstruction of the society as accessible to all participants to the socio-economic and political life. What Müller also consider to be a social component of the concept, was the implication in the future stabilization of the economy through the exploration of industries that needed the support of the state as well as financial involvement into innovation. In order to see the economy developing in a sustainable manner the state under Müller's view, was also the one that should mitigate the relations between employers and employees in such a way that in time

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[7] Idem

[8] F.A. Hayek, "What is social? What does it mean? " 1957, University of Chicago Press

social differences between classes to be decreased. A third view, was based on the idea that with a strong economic development and a sustainable allocation of resources the social differences will disappear with time. The widening of capital ownership through fair competitive rules will dismantle social opposition within the classes. The social policies were regarded with high interest however they were not supposed to become an impediment for the development and functioning of market mechanisms.

As it can be easily seen from this short explanation of historical references, the differences in opinion regarding the social component of the concept can highlight an interesting aspect. Although the current acceptance of social policies related to the Social Market Economy within the EU are driven clearly towards income redistribution mechanisms, employee rights and representations, subsidies, etc, under the Ordoliberalism the social component can be regarded more as a desiderate to be achieved once the real benefits of a fair market economy are being registered. The differences in the level of the social classes were clearly thought to disappear as a natural effect of a higher income distribution among the population. With a productive and fair competitive economy the access to products and services could have been widen across the population, would have conduced to a higher income, and hence to less social inequalities. And that was the acceptance of the social component.

Coming back to present history, where are we? The EU has as main economic orientation the social market economy. Throughout the elaboration of all strategies after Lisbon and mainly inside the EU 2020 Strategy the attainment of a smart, sustainable and inclusive growth needs to be maintained under the social market economy. The key debate related to this article remains on how the social market economy concept is understood. The linkage of growth policies with direct social policies aimed at decreasing the disparities among Member States and not only among regions as it was previously targeted can be considered to be at least problematic. The deepening of the economic crises which pushed the eurozone into a clear depression cannot be addressed with this view on the understanding of the social market economy. Moreover, I would like to underline again the definition that was given to the social market economy at the moment of its founding was related more on market mechanisms with fair competition which is correctly applied were going to lead towards rewarding social policies which were going to annihilate the social discrepancies and implement what the Ordoliberalism was referring to as social justice. Unfortunately the strong hit of economic contraction has shown an evident truth that growth policies cannot go hand in hand with social expenditures. The reason why I use he word unfortunately is because it made the public debate for economic orientation with respect to the drafting of European Strategies, more and more restricted. Social market economy can be a very solid basis for economic development of the European Union at a steady pase if there were few conditions met simultaneously. The EU 2020 strategy aiming at a 75% employability rate and a thorough economic growth is a strong political impetuous however, one needs to consider these facts with a pinch of salt. The main issue that the EU is facing right now regarding the lack of projecting the desired targets into reality is embodied in the lack of concrete legislation which will transform targets and political wishes into mandatory legislative measures.

The current document discussed is in one of these examples, as it declares from the beginning that the content is related to projections and providing recommendations for the support of a job rich recovery at EU level. The same document acknowledges in a way also one if its limitations, which again is directly linked to the applicability of the measures described within its content, as the problematic of "labour market dynamics will need to be granted mainly at national level." [9] Having brought to the discussion the diluted potential for this document with respect to its implementation, I will get back to the problem of the political acceptance of the concept of social market economy in current times. The question still remains what do the political powers who are the main drafters of these strategies understand and assume when they refer to the social market economy?

The social market economy as it is perceived today is a still an undefined concept. Whereas during Germany's reconstruction post WWII, the concept was generating policies, with clear effects into reality, the unclear definition of this terminology is now-a-days translated into a desiderate of a market economy with social policies aimed at reducing disparities at social and economic level among regions and member states. To my view, the definition cannot be attacked per se, however it is totally insufficient. The points of discussion related to what is compatible with growth policies in terms of social policies, still remain unanswered. Moreover, the strong recession in the Euro zone is also strengthening the need for a clarification of terms. The simple and unsophisticated questions of what do we want and what can we afford remain at the core. Needless to point out that by answering these questions, a concrete strategy can be drafted and supporting legislation can also be formulated. The public opinion, from scholars, think thanks, civil society and other stakeholders have repeatedly formulated possible answers to the questions. However, the freeze in decisional mechanism remains a clear problem which needs further deeper consideration as it bears a cost for the economic development of the EU as an economic entity but also for the economies of the Member States. However, the lack of political response towards finding the appropriate legislation in order to become mandatory for the Member States with respect to supporting the political acknowledgements under the form of strategies or communications is of crucial interest for the thematic addressed by this article. The divergent understanding of how to obtain a social market economy is actually a drawback in creating sound measures for future developments of the labor markets in the context of an economic recovery.

[9] "Towards a job-rich recovery", Communication of the European Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of Regions, 18.04.2012, COM (2012) 173 final, www.ec.europa.eu

3. Assessing the measures defined in the Employment Package and their impact upon labor markets

The document as previously shown, is concentrating on the desiderate of job creation as a tool for obtaining the targets of the EU 2020 Strategy as well as creating the basis for a sustainable economic recovery and growth at the EU level. As it was presented in the first part of the article, the Commission identified certain area of potential growth especially for job creation effect. The main argument present in the Commission Communication is that the area of green jobs is expected to have a higher growth albeit the sectors which are composing it to generate more jobs, hence the detection of job creation effect.

However, without denying the necessity to the low-carbon economy, I need to refer to few points.

The first one is the convergence point between job creation effects and job destruction. There are several studies which are inclined to use the Phillips curve for detecting the evolution of unemployment with respect to job availabilities, yet in this particular case I will use the Beveridge curve. Based on the theory according to which the intersection between the supply and demand of labor can be influenced also by the creation and destruction of jobs. There are several socks that can be registered on the labor markets. One type of shock is related in the change in job composition on a labor market which will be translated into reality by a shift in different directions of the curves for job creation and job destruction. The changes that appear in the reallocation of resources in the economy are producing this type of shift of the two curves. In other words, if the intensity of resource reallocation will grow towards a sector, that particular sector will grow in size which will be conducive to a higher labor demand. The model based on the Beveridge curve has been perfectioned by Olivier Blanchard in the end of the '80s. The model based on the Beveridge curve starts from few assumptions: in an economy at any time there can be a shift in the profitability of jobs, accordingly, some jobs will become more profitable than others. The labor force which is hired in the jobs that become unprofitable will become redundant and they will be in search of new jobs. In order to assess if the vacancies on a sector can appropriately filled by the current job seekers, an aggregate function is used to observe the match between the unemployed and requirements of the vacant jobs. Filling the vacancies by available working force is done over time, hence, the filling cannot be done automatically, as the new jobs are requiring new sets of skills which the job seekers need to acquire. The same model states the productive jobs can become unproductive and vice versa[10]. The function used in this model shows that job creation and job destruction effects can actually coexist. The reason for the two effects to coexist can also be attributed to the role of remuneration of work.

[10] "The Beveridge Curve", Olivier J. Blanchard, Peter Diamond, Brooking Papers on Economic Activity, 1: 1989

However, Blanchard agrees to the fact that the model shows that unemployment rates are not directly linked to the job creation effect. In other words the unemployment rate can decrease faster or slower that the rate of job creation. Another theory that I want to bring to the attention with respect to the analysis of the content of Employment Package is the Cobweb model[11] designed by Freeman. The theory that Freeman presents in his model is that the decision of individuals to convey their search towards a certain type of jobs based on the projection of a job creation effect, mainly through the attractiveness of remuneration appeared as a consequence of the development of that sector. The assumptions that are formulating the starting point of this model are of high interest for the present assessment. The first assumption is that in order to cover the vacancies for new jobs the work force needs time in order to obtain the necessary skills. Te second assumption is that individuals tend to take the decision related to their future studies based on the announcement of availabilities of jobs at a certain point in time.

Coming back to the Employment Package I would like to take into discussion the announcement of job availabilities in the green economy. Based on the Commission view, the job creation effect will become pregnant in the mentioned areas comprised by the green economy. Consequently, there is going to be a job destruction effect, as more and more industries will reshape their activities in such a way that they will respond to the requirements of the low carbon economy desiderates.

At this point I already depict few problems. The adjustment period of the business environment to the low carbon economy entails new investments that the companies need to bring forward provided that those investments will be conducive to the maintenance of a competitive level at national, regional, European and even world level, if we are also envisaging into this discussion big companies. In the view of future investments few aspects are also needed to consideration: first, is there a real demand for the end products that will derive from the adjustment of the respective business? Can the demand be already quantified in order to provide a real assessment for the investment level needed? Another aspect is that the EU is still lagging behind other countries with respect to the R&D spending, or the transition to the new economy, low carbon, with green jobs implies that a higher shift in the spending level of R&D and also professional reconversion are required. The main issue related to this aspect is if there are necessary financial resources to support these measures and also finance a deficit of labor until the working force is available and fully functional on the new professional requirements. From this perspective, the Freeman model of Cobweb represents a correct image of one potential disruption that can appear related to the announcements regarding higher employment rates in the green jobs area. By submitting the idea that the job growth will be substantial in an economic area which is not yet extremely well defined could lead to an inflation of

[11] "A Cobweb Model for the Supply and Starting Salaries of New Engineers", Richard B. Freeman, Industrial and Labour Relations Review, January 1976

available working force and also can drive to individuals that will pursue academic or educational programs placing their expectations on the announced developments of the related sectors.

The chain of effects can go even further. The requirements related to the necessary skills that the workers need to have in order to occupy these jobs are also unknown at this point in time. Consequently, too many unknown variables cannot be of efficient in the development of clear measures that need to be taken at the level of investments, convergent measures for educational reforms and business environment changes.

Another aspect is the measures that are proposed in order to have incentives for hiring with respect to the job creation effect. One of the measures that the Commission is seeing as a potential tool for job creation is the implementation of hiring subsidies. In terms of maintaining a unity of the content of the Employment Package as a pack of measures to sustain economic growth and labor market reform towards flexibility and competitiveness the reasoning behind proposing hiring subsidies cannot be denied. However, there is one aspect that has to be discussed. The set of measures proposed by the Employment Package is build on a medium to long time frame, and in this context, can the hiring subsidies be regarded as a necessary and efficient tool? Hiring subsidies cannot be grunted for ever as they are measures that can start up boosting the development of certain industries by creating incentives for employers to hire, as the cost of labor will be lowered and the investment level will be decreased. In the same time these subsidies do become appealing to the employees as they can see a higher demand of the goods and services provided by the emerging sectors. Yet, the previous aspects mentioned with respect to the formation of expectations of the current and future labor force due to the foreseen developments of the green sectors du have a long term perspective of impact. In this case the problematic of a correct impact assessment of effects registered on medium to long term still remain questionable. Further more, the hiring subsidies cannot be regarded completely independent from the business developments. In other words, the subsidies can be a strong impetuous for job creation effect, but not sufficient. A government can provide hiring subsidies yet, if a company does not have a high demand for its finite products or services, there isn't a clear need for upgrading the number of the workers. On the same token, a business cycle remains dependant on the time frame needed for evolution, which definitely implies that demand for hiring grows exponentially with the business' development and growth in market shares. Here, the conflict of economic rationale becomes clearer. Whereas the hiring subsidies are regarded as an immediate tool that can bring more added value on a short to medium term, they cannot be used as the labor force is still not defined and needs time for formation, which entails that these subsidies can create an impact on a medium to long term. Can governments support these ideas, with the current recession and budgetary constraints? I would say no.

Another issue that is arising from the same range of topics is weather the job destruction effect will be a natural phenomenon, based on the loss of competitiveness albeit, demand for the goods produced, or as the model developed by Blanchard suggest, some sectors will become unprofitable as a shift to the new views depicted in the latest strategies. The business environment is very dynamic and as long as certain directions will be given for new areas of economic development, the companies will try to adapt as quickly as possible and to penetrate as fast as possible the new markets. In this respect, the governments will find themselves in front of a new budgetary dilemma. They will need to finance the buffer time of transition. Financing this buffer time will translate into costs of unemployment, costs of professional reconversion, and also diminished budgets if some companies will fail in their attempts of reorganization and penetration of the new markets. Having in mind the current economic situation of the Euro zone and the perspective for growth of each member state I take the view that these costs will represent extreme burdens.

Furthermore, the reduction of labor costs is not sufficient to obtain competitive labor markets. The reduction of labor costs can be regarded as useful as long as there are no discrepancies among competitors with respect to the utilization of all the other production factors. In this sense, the labor cost can become the competitive advantage. However, as long as there are no clear views on the new skill set these job require, one cannot evaluate if labor costs can impact decisively the competitiveness of the end product.

4. Conclusions

The discussion carried in this article is meant to set the premises for a better understanding regarding the strategies built at EU level and their implication in practice. It is clearly understood that the analysis can go even deeper into detail, however, the purpose of this article was to set a first discussion regarding the latest developments regarding the future of the labor markets within the EU.

At this point a number of conclusions can be drawn, which can become the starting point for a future discussion with respect to observing the evolution of labor markets in EU and if the document proposed by the Commission produced an impact, an improvement of the development of the economy.

The article had taken into discussion the impact of such documents regarding the current institutional framework, the current treaty, the growing disparities among the Member States' economies, the agreed definition for "social market economy", as well as the implication of the content of the Employment Package on medium and long term.

The first conclusion that can be drawn represents the limitation of this document as it comes as a mere recommendation towards the Member States, trying to create a corridor of discussion among them in order to set the basis for common reforms in fields of labor, education, environment strategies, etc. Although it represents a bold initiative, as we can see for the first time a document that is touching upon different policies, laying out the links between convergent reforms that can create a solution to a shrinking economy, it is dissolute by several factors. First, the current version of Treaty is still empowering Member States to take decisions with respect to labor markets. Passing recommendations through position documents can be done through the Open Method of Coordination, a setting that is welcoming dialog but not enforcing regulations. As such, the space of maneuver for the national governments is very large and postponement of reaction becomes inevitable. Moreover, this method has already been long debated as being too lax in order to enhance efficiency in decision making among governments and the Lisbon agenda can be held as an example in this way. The document is also unveiling another weakness, since it was released there has not been a proposal for a legislative act forwarded to the European Parliament, which poses a question mark for the future action that is envisaged through this document. At the same time, the measures for finance are mentioned in the main document, proposing different funds to be used in order to support the measures announced, yet the latest negotiations with respect to the European Budget proved that an agreement related to the reallocation of funds towards policies is still up for discussion. Further more, the European Parliament has voted recently for the suspension of the Social European Fund, until a clear agreement for the overall budget will be attained. The fact that there are projects which were approved by the troika and put on hold as the lack of funds is becoming a more pressing reality in an economy that is contracting, converges to the idea that in order to shift the allocation of resources to complete new areas will be a long process of negotiations and the outcome of it is more than difficult to foresee.

Another problem related to this document is the fact that is still regarding the EU as a convergent entity. The reality shows the contrary, due to the economic crisis and the differences in economic development prior to the crises, the economic divergences among Member States outgrew the convergent effect that has been awaited as a consequence of the convergent policies and strategies based on inducing economic growth and enhancing social policies simultaneously. Consequently, we are facing an economic space within the EU that has different problems, different growth rates, different potential for growth and different productive sectors. It is of undeniable reason that the transition to a low carbon economy represents a priority, yet the Member States do not hold the same leverage and do not form a convergent economic block that can afford investments into the green economy with the hope that they will win their place at the world competitive scale. The less productive Member States are dependant on the traditional sectors of industry and in that particular case, the transition will be slower. Setting such high economic goals, represent a good political impetuous for contracting the effects of a social crisis, for a braking of the euro, and an even higher economic draw back of the EU, yet economically they are not sustainable. Further more, due to the existence of the economic discrepancies among Member States, the overestimation of the job creation effects discussed in the second part of the article, will bare even greater consequence in the migration phenomena, as workers will be attracted by the promise of more jobs and prosperous business developments. In this respect, the short term effect will hamper the national equilibrium on supply and demand of labor even greater as traditional sectors that can remain profitable for the national growth will be left with more job vacancies that will create a wage pressure for the employers who will be in a constant search for labor. The mechanism needs to be considered thoroughly, as the level of national productivity of those sectors might not hold to the wage pressures, and then automatically these sectors will disappear, leaving more pressure on the governments in their attempt to restart the economy by investing in the new industries. This whole argumentation boils down to a very tricky concept: wants vs. needs. Does the current EU with contracting economies need such investments and such a sudden change, or does it just want it?

The content of the Employment Package does set some bold measures yet, under the current economic scenario that the EU is facing it does not stand as a pack of measures for so many different problems.

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MONEY AND INTERNATIONAL TRADE: THE PERSPECTIVES OF JOHN LAW AND RICHARD CANTILLON

Radu Musetescu[1]

Abstract

John Law and Richard Cantillon are two economists whose lives and works are intrinsically related. They were at one moment close collaborators and at a later moment bitter enemies. On the one hand, John Law significantly shaped the institutional and policy framework of the French financial system in the beginning of the eighteenth century after the theory he exposed in his „Money and Trade Considered, With a Proposal for Supplying the Nation with Money" (1705). The system he put in place led to one of the first financial crashes in the history of the West, the so-called Mississippi Bubble. On the other hand, Richard Cantillon was a successful banker and financial investor who reacted to these extraordinary events by building his own arguments that were later articulated in his „Essai sur La Nature de Commerce en General" (1734, translated into English as "An Essai on Economic Theory"). The legacy of the two economists is impressive in the development of economic thought. The fundamental ideas of their perspectives lie even today at the core of the contemporary debates surrounding monetary policies. But their contribution related to the relation between money and international trade has been largely marginalized because of the focus on their role and the relevance of their theories for the Mississippi Bubble. We attempt to address this situation by highlighting their valuable contribution in this respect.

Keywords: monetary theory, history of economic thought, financial bubbles, inflation, international trade

JEL codes: B12, B23, E51, G21

John Law was a controversial personality. Till the publication in 1705 of his most representative work („*Money and Trade Considered, With a Proposal for Supplying the Nation with Money*"), he had little interest in scientific inquiry. The main occupation of John Law till 1705 was gambling (an occupation he assumed with pride) and he was later acclaimed for his sharp mind and impressive arithmetical skills. But gambling usually does not need a coherent economic theory. At one moment, he had to mortgage his family estate in order to pay off his debts. Moreover, he even had to flee Scotland in 1695 after escaping from prison where he was on his way to execution [Murphy, 1997, page 35]. For ten years, he roamed casinos and gaming tables through different European countries. The affluence of Holland greatly

[1] Radu Musetescu is Associate Professor, PhD, Department of International Business and Economics, Academy of Economic Studies, Bucharest. E-mail: radu.musetescu@rei.ase.ro

impressed him. Such an experience apparently made him aware of the monetary issues of that age as he had contacts with the ongoing developments in the banking and financial industry taking place in Holland, England, Italy or France.

The huge public debt generated by war expenses led in a large number of the European countries to confiscatory taxation and huge losses in prosperity. Protectionism, domestic monopolies and arbitrary manipulation of the commodity money – what some economists define as „*mercantilism*" [Rothbard, 1995, page 213] – meant crippling conditions for society at large and business in particular. Several governments as well as scholars turned their attention to the monetary policy as the last hope for addressing such social conditions while largely maintaining the *status quo*. Obviously, their envisaged solution was nothing but an attempt to devise a mechanism for overcoming the natural scarcity of commodity money and capital while allowing a further redistribution of social wealth in favor of the state. That could also be called the central idea of „*Money and Trade Reconsidered*".

1. The monetary theory of John Law

John Law had a correct perspective on the process of the emergence of money. He correctly pointed to the function of money as a medium of exchange that facilitated trade and overcame the inner limits of the barter system. The Scottish economist even explained why silver – as well as other precious metals – played the role of medium of exchange, highlighting the core physical characteristics that qualify it for such a task:

„*1. It could be brought to a Standard in Fineness, so was certain as to its Quality.*

2. It was easie of Delivery.

3. It was of the same value in one Place that it was in another; or differed little, being easie of carriage.

4. It could be kept without Loss or Expense; taking up little Room, and being durable.

5. It could be divided without Loss, an Ounce in four Pieces, being equal in Value to an Ounce in one Piece" [Law, 1705].

This is a strong statement that money emerged as a market phenomenon. It is repeated in other forms: „*It is reasonable to think Silver was Bartered as it was valued for its Uses as a Metal, and was given as Money according to its Value in Barter*". This is, in fact, the spelling of what will be named, in the twentieth century, the regression theorem [Mises, 1949, page 409], namely that the purchasing power of money has its origin in the purchasing power of money as commodity, when it was bartered (as a simple commodity like any other).

According to John Law, all the above-mentioned problems came from the apparent fact that there was not enough money. Other causes were purely and simply ignored or downplayed. Law embraced the concept of "*money scarcity*" where "*scarcity*" was not understood as in the case of any other economic goods – by the way, all goods are perceived to be scarce by the population otherwise they could not be called "*goods*" [Mises, 1949, page 93] – but as "*shortage*". But when someone is talking about „*shortage*" he should make appeal to a normative standard of optimal supply. Without it, nobody can logically argue about shortage or oversupply. Law never advanced an answer to the question "*which should be the optimal supply of money in the society?*" or, when he did it, he was just making comparisons to other countries: „*So to be Powerful and Wealthy in proportion to other Nations, we should have Money in proportion with them*". Interestingly, that could be a correct statement if we assume that there is free trade between two countries. As there is a natural process of equalization of the price of goods between them, the same price for the money (the same purchasing power) on two markets would lead that there is a proportion between the quantity of money and the demand for money in each of the two countries. But imposing such a proportion before the natural working of the demand and supply mechanism is an erroneous policy. For John Law, the solution to such a prosperity gap is simple: more money would mean more economic development.

He frequently restated this idea in his pamphlet: „*Domestic Trade depends on the Money. A greater Quantity employs more People than a lesser Quantity*" or „*An addition to the Money adds to the Value of the Country*". As a true forerunner of John Maynard Keynes, he argued that „*But no Laws can make it go further, nor can more People be set to Work, without more Money to circulate so, as to pay the Wages of a greater number*". In consequence, in the vision of John Law, unemployment had nothing to do with war, taxation, state licensed monopolies or tariff barriers. It had to do only with money so a proper monetary policy would solve everything: „*So an Addition to the Money, whether the Employer gains or not, adds to the National Wealth, eases the Country of a number of Poor or idle, proportioned to the Money added, enables them to live better, and to bear a share in the Public with the other People*" or „*As Money increased, the Disadvantages and Inconveniences of Barter were removed; the Poor and Idle were employed, more of the Land was Laboured, the Product increased, Manufactures and Trade improved, the Landed-men Lived better, and the People with less Dependence on them*". The same argument is frequently restated: „*for the best Laws without Money cannot employ the People, Improve the Product, or advance Manufacture and Trade*". Even the size of the population, ultimately, is a result of the money supply in society: „*National Power and Wealth consists in numbers of People, and Magazines of Home and Foreign Goods. These depend on Trade, and Trade depends on Money*".

Tracing the cause of all evils – and also of all goods – only or mainly to money is obviously a gross oversimplification of reality. It ignores other factors which, it could be argued, are more relevant, such as public policies and their relation to property rights (taxation, public debt) and freedom of exchange. But such terrible simplifications are in general very attractive due to the simplicity of the alleged solutions (in the case of John Law, all it is needed is „*just*" an increase in the money supply) as well as the moral exoneration of those responsible for the real causes. They were, obviously, the sovereigns.

Modern economists have argued that there is no such thing as an „optimal" money supply in a society: „*there is no such thing as "too little" or "too much" money ... whatever the social money stock, the benefits of money are always utilized to the maximum extent*" [Rothbard, 2004, page 766]. Any quantity of precious metal would allow it to successfully play the function of a medium of exchange. Of course, it is very improbable that a commodity will be chosen as a medium of exchange by market participants in a definite historical context unless there is a perceived wide availability of such a good in that particular society. But besides such a condition, the quest for an optimal money supply is useless. In fact, there is no such thing as an optimal supply of any good except from a personal opinion and a purely subjective perspective. But simply stating that more is better is not a normative position. It is just a denial of scarcity. Taken to its ultimate logical implication, it is an argument for an infinite money supply.

Such conclusions advanced by John Law seem to be the result of a failure to grasp the concept of purchasing power of a monetary unit and its difference from the nominal value of it. Paradoxically, the Scottish economist anticipated the counterargument and explicitly rejected it: „*When I use the Words, Raising the Money, I desire to be understood raising it in the Denomination; For I do not suppose it adds to the Value. There is no way Silver can be made more valuable, but by lessening the Quantity, or increasing the Demand for it. If the Export and Consumption of Silver be greater than the Import, or the Demand be encreas'd; Silver will be of more Value. If the Quantity Imported be greater than the Quantity Exported or Consumed, or the Demand lessen'd; Silver will be of less Value*". Interestingly, this could be called among the best expositions of the "*quantity theory of money*". But, fundamentally, Law believed that someone can have the cake and eat it too: the money supply can be increase while maintaining its purchasing power ("*the value*") of the monetary unit. This is an error that is at the center of his monetary theory. It will later emerge during his public tenure.

2. Two countries and the same medium of exchange

A very challenging argument that John Law advanced against silver was that this metal was "*too scarce*" in Scotland as compared to other countries such as, for example, Spain. Let's assume that in Scotland there is only a small physical quantity of silver as compared to Spain where silver is so abundant that it is almost a general condition of the environment. But, in the same time, this good serves as a medium of exchange in both countries. Can Scotland be bought out by Spain due to the latter's huge resources of silver? Law alertly anticipated such a potential scenario: „*but, if a Stranger were suffer'd to come to Scotland, he might purchase a great part of the Land or Goods with a small Sum. And a rich Man here would make a very small Figure Abroad*".

This may be one of the erroneous prejudices that countries with poor natural resources (especially in precious metals) would experience when discovering that other countries with the same medium of exchange enjoy in fact a huge natural resources in this metal. First of all, the core issue resides in the purchasing power of the monetary unit which is given by the price of silver denominated in all other goods in each of these two countries. Under normal condition, the purchasing power of silver will be higher in Scotland than in Spain due to the differences in relative scarcity of the silver on the two markets. The existence of a significant difference between the relative prices of the same good on two different markets reveals however the powerful barriers in the path of free trade between the two countries. This is the case of not only silver but of any other good. Ricardo argued that what it is important for the emergence of international trade are not absolute prices but relative prices [Ricardo, 2005, pages 110 - 122], which are determined by relative local scarcity. That could be, in the end, the embodiment of the comparative advantage. Entrepreneurs do not judge this comparative advantage in abstract terms but in money terms.

As soon as the trade between the two countries will start in two goods, the relative prices of the goods will start to converge. In the case of money, while the first individuals who export silver on the Scottish market will gain for a period of time some entrepreneurial profits (as they discover the difference in the price of silver between the two markets), as soon as silver will enter the Scottish market its price will decline. In the end, all the prices of the goods traded on both markets (including silver) will be one. The alleged possibility of buying out Scotland ignores the dynamic of the supply and demand on the money market.

In consequence, a community could adopt as money an economic good such as silver even if it is not physically available for mining in that community. The only condition is that there is a free trade between that country and a country where silver is physically available for export. Fundamentally, while not so many individuals do own silver mines, this is not a barrier for them in choosing silver as a medium of exchange with the rest of society. On the other hand, the same type of argumentation is in the case of a single individual who has an infinite quantity of a metal. While he could be able to buy at least for some time resources from other members of the community, in the end, its infinite supply would be spread to the rest of that community. And that would happen long before he has succeeded to buy all the goods in that society. Needless to add that even if we could take into consideration unlimited physical resources of silver in one country, except the case that this good is floating in the air and could be costless to mine, all the costs implied by its production would naturally limit its supply. The fact that ocean water is almost unlimited in supply does not prevent some individuals from this Planet from suffering of thirst. The costs of transforming ocean water into edible water prevent countries with access to ocean from eliminating the problem of lack of water even within their own boundaries. The silver on the market is another good than the silver in the mountain exactly as the water in the ocean is another good than the edible water.

3. Money and international trade

When discussing the alleged competitive advantages of the Scottish economy as opposed to the Dutch counterpart – such as lower costs for factors of production – Law considered that the lack of money is the main impediment that prevents the Scottish entrepreneurs from successfully exporting to Holland: „*unless Money be in* *greater Quantity in Scotland, or Expense retrench'd, we cannot trade so cheap as the Dutch; Tho' we have Advantages for Trade that they have not, and tho' they be under Disadvantages we are not lyable to. By a greater quantity of Money and Oeconomy, the Dutch monopolize the Trades of Carriage even from the English*".

This is a statement that confirms the failure to apprehend the concept of capital and its difference from that of money. Holland enjoyed not simply more money but a larger stock of capital than Scotland and this is the fundamental factor that makes the difference in international competitiveness between the two countries. Interestingly, this is also a qualification made by several later commentators like Thiers: „*Law attributed the languishing condition of Scotland to the defficiency of capital. He was undoubtedly right; but confounding capital with currency, which is simply a means of exchange, he imagined that an abundance of money was the cause of the riches of states whose prosperity money had only developed*" [Thiers, 1859, page 19]. His conclusion is unopposable: "*Cover a desert isle with all the gold of the Americas, or with all the notes of the Bank of England, and we should not at once find roads, canals, husbandry, and manufactures – in a word, business. If by any means the amount of money in a country could be increased without a proportionate increase in the amount of everything else, the prices would only be raised without increasing actual wealth, because a greater quantity of cash would be put in the balance with the same quantity of merchantable articles*".

John Law even concluded that the competitive advantage of nations in international trade consists in size of the money supply they enjoy. He argued, in the same logic, that „*Scotland has a very inconsiderable Trade, because she has but a very small part of the Money*". Such a conclusion also defaults on logic and is, in fact, in contradiction with the previous argumentation of the author. If we assume that two countries (Scotland and Holland) have the same metal standard – be it silver – the fact that there is a smaller supply of silver in Scotland should not only impede the ability of this country to trade but, on the contrary, should encourage the international trade of such a country.

If we assume further that there is the possibility of free trade between the two economies, a smaller supply of silver in Scotland should lead to smaller prices on the average in this economy (as a result of a larger purchasing power of silver unit). In consequence, entrepreneurs should have the incentive to buy in Scotland and sell in Holland where, because of a larger supply of silver, the metal has a smaller purchasing power. Till the moment that the prices in the two economies are uniform (less the costs of trade), Scotland will be better positioned to export due to its overall smaller prices denominated in silver. Such a favorable balance of trade for the country with a smaller supply of silver will last till the quantity of silver imported back (as a payment for the export) would make the prices uniform by increasing the level of prices on the Scottish market and lowering the level of prices on the Dutch market. In the end, silver should have approximately the same price in the two economies.

Another argument revealing this error in the theory of John Law consists in his considerations related to the formation of the interest rate in the economy. He pointed that a reduction in the level of the interest rate by itself, without any other measure to increase the money supply, would not have the positive effects envisaged. He supports such a reduction "*by law*" only on the condition of pairing it with an increase in the money supply: „*Some think if Interest were lower'd by Law, Trade would increase, Merchants being able to Employ more Money and Trade Cheaper. Such a Law would have many Inconveniencies, and it is much to be doubted, whether it would have any good Effect; Indeed, if lowness of Interest were the Consequence of a greater Quantity of Money, the Stock applyed to Trade would be greater, and Merchants would Trade Cheaper, from the easiness of borrowing and the lower Interest of Money, without any Inconveniencies attending it*". One cannot but wonder whether Law should have been a supporter of a fiat money policy coupled with usury regulation (when the rate of interest is compulsory „*lowered*" to its logical end, the total abolition). There can be no surprise that such kind of monetary policy – increased money supply coupled with the lowering of the interest rate – lies even today at the core of monetary policies.

But the Scottish economist pointed also to another interesting aspect for international trade. Law argued that smaller the rate of interest in an economy, smaller the costs of financing for the entrepreneurs in that particular economy so smaller the overall prices and greater the competitiveness in international trade. In general, investment projects which could be attractive for the entrepreneurs in the economy with a lower interest rate may be unattractive for the entrepreneurs in the economy with a bigger interest rate. Such a conclusion can be correctly interpreted only on the condition of having a correct theory on the formation of interest rate and assuming that goods are homogenous on different markets. As modern monetary theorists will argue, the level of natural interest rate in the economy (absent the monetary manipulation) will be the result of a social (or natural) rate of time preference [Mises, 1980, page 394]. A lower rate of interest in an economy is the result of a lower social time preference which is the result of an increased overall level of development. Such a lower time preference leads to more lengthy cycles of production and the exploration of new lines of production, farer from the immediate needs of the population. In such an economy, we witness a larger stock of capital goods and a more pregnant perception of prosperity.

Failing to apprehend the concept of the purchasing power, John Law couldn't obviously grasp the phenomenon of inflation. He ignored such an impact or he minimized it. When he discussed the import of silver by Spain from its colonies, he admitted that the increase in the silver supply will lower the value of money. But the Scottish economist did not see any problem: „*If the Money of an particular Country should encrease beyond the proportion that Country bears to Europe; it would undervalue Money there, or, according to the way of speaking, it would raise Goods: But as Money would be undervalued everywhere the same, or near to what it were there; it would be of great Advantage to that country, tho thereby Money were less valuable: For that Country would have the whole Benefit of the greater Quantity, and only bear a share of the lesser value, according to the proportion its Money had to the Money of Europe. When the Spaniards bring Money or Bullion into Europe, they lessen its value, but gain by bringing it; because they have the whole benefit of the greater Quantity, and only bear a* *share of the lesser value*". John Law seemed to argue that the aggregate quantity of silver "in Europe" and the proportion that the silver supply in a particular country has in this aggregate quantity is the most important factor in the "value" of money in that country. He assumed that the purchasing power of silver was constant all over Europe, a perspective that ignores its relative scarcity on different local markets. Further, it implicitly assumes a zero-cost of production of money for the Spaniards and ignores the necessary condition of free trade in silver between the countries of Europe.

Such errors lead to a truly mercantilist understanding as it does not matter that the supply of money increases in a country (with the inflationary consequence) as long as its proportion to the aggregate country at European level increases. As a logical consequence, the most important thing is for a country to increase this proportion, irrespective of the impact of the purchasing power, both locally and internationally. In conclusion, the only path for Spaniards, the owners of an "infinite" and "costless" money stock, for maintaining or increasing their affluence would be to adhere to free trade (both in silver and other goods) and abandon trade barriers. Such a perspective is ignored by John Law.

In presence of trade barriers, such a free receipt of silver by a country (such Spain) does not have any positive welfare impact and normally will put this economy in difficulty. Because of the general – and sudden – increase in the level of prices, the Spanish producers will become uncompetitive as compared with the other European producers in the case that other goods can find a way inwards Spain. As silver will have a different purchasing power on local markets in Europe, Spanish traders will import goods from other countries and such a trade will bankrupt, in the end, the Spanish production of non-monetary goods. The only „*production activity*" that Spain can still maintain as competitive is that of money itself, as a colonial enterprise or a mining activity.

4. Supplying a country with money

The position of John Law became markedly self-contradictory when, on the one hand, he criticized the argument of several previous writers that the adoption of a particular commodity as money was a political act and, on the hand, his own proposal for a political adoption of a medium of exchange (based on land titles). Law criticized John Locke for his statement that the choice of silver as money has been, in the European countries, a political act (in the sense of political design). He argued that „*I cannot conceive how different Nations could agree to put an Imaginary Value upon anything, expecially upon Silver, by which all other Goods are valued; Or that any one Country would receive that as a Value, which was not valuable equal to what it was given for; Or how that Imaginary Value could have been kept up*".

We cannot but wonder why this correct argument related to the inability of nations to politically agree on a common medium of exchange and its value is not also applied in the domestic realm. His proposal for a paper money based on land titles was not only „*political*" (he petitioned the governments to adopt it, not banks or citizens) but also utopian. The proposal did not really describe the workings of such a monetary system. It breaks exactly the characteristics that Law himself recognized in silver as critical for his acceptance as a common medium of exchange: not only that it is almost impossible to divide in smaller units but the core characteristic of a medium of exchange, that is, being generic, is not satisfied by land.

The idea of Law that value, in an abstract sense, comes from land is not enough for land be at the base of a common medium of exchange. One cannot wonder whether a medium of exchange based on titles on labor hours has not the same merit. Adam Smith and David Ricardo didn't make such a proposal even if they considered labor as the source of value. The proposal of Law can be qualified as a proposal for fiat money as the connection of the medium of exchange with land titles is too far and unrealistic. This is the conclusion of several monetary theorists: "*Law never intended that paper money would be redeemable in land. He was only attempting to build a case for paper money that would eventually have little or no backing*" [French, 1992, page 44].

John Law consistently heralded Keynesianism by the faith that the level of economic output is a result of the money supply, providing an interesting link with this school of thought and mercantilism whose ideas he fundamentally shared. As Salerno pointed, "*in addition to his assumption that the prices of most goods are „sticky downward", Law further anticipates Keynes and modern macroeconomists by positing a causal chain that runs from the supply of and demand for money through the interest rate to the volume of business investment and employment*" [Salerno, 2010, page 6]. From a public policy perspective, the core challenge to the internal consistency of his theory is the apparent contradiction between his desires to increase the money supply and reduce the interest rate as a way to foster economic activity and the maintenance of the purchasing power of the monetary unit both on the domestic and on the international market. His proposal for a paper money based on land titles is so unrealistic that we can qualify it, in fact, as a proposal for a fiat money. Such inconsistencies will be exposed during the Mississippi Bubble.

5. John Law and banking

While several contemporary or later analysts have criticized the perspective of John Law on monetary theory, a large majority of them praised him for his perspective on banking. John Law lived in a period when there was no central banking in the modern acceptance and no monetary policy in the sense of the manipulation of the macroeconomic aggregates. However, contemporary experiments in Europe such as the Bank of England witnessed the monetization of public debt as well as debasement of currency associated with paper money. Moreover, the introduction of the fractional reserve banking was another ingredient that fueled financial bubbles in the economies of the Western Europe. The adhesion of John Law to fractional reserve banking is consistent with his ultimate desire to increase the money supply in the economy.

The fractional reserve banking system emerged in opposition with the free banking system. Without initiating a complex discussion on the differences between the two banking systems (which is developed in the economic literature starting with the beginning of the twentieth century) [Mises, 1980, de Soto, 2009], we should mention that the critical difference lies in the nature of the on-demand deposit contract. In the case of the free banking, the deposit has a 100% reserve in the sense that the banking institution operates like a depository warehouse [Rothbard, 1983, page 87]. Banknotes are depository receipts for the metal stored in the bank. The holder of the deposit can withdraw money at any time. The use of the metal by the banker is qualified as a fraud. On the other hand, in the fractional reserve banking system, the banks use the money from demand deposit in the credit activity. The core issue of disagreement between different theoreticians in the monetary field comes from the lack of clarity of the demand deposit. The fact that banks assures the depositors in the fractional reserve system that they can withdraw their money at any time (even if the metal is used in crediting) leads in fact to the creation of an additional money supply which is breaking the contractual clauses of the demand deposits. In fact, depositors in a fractional reserve banking system have the right to use the money from their on-demand deposits as if they are 100% available (draw checks and so on) while the bank awards a part of this money to credit other individuals.

Obviously, such a system with an apparent double availability of the same sum of money is problematic from a property rights perspective. The depositor cannot in fact enjoy immediately the entire sum of money even if the banker claims so. The system operates only as long as the depositors do not withdraw immediately and in the same time all their money from the bank or the banker has the ability to convert its assets (the loans awarded to its debtors) into cash (or take at its turn debt).

John Law argued that „*Banks where the Money is pledg'd equal to the Credit given, are sure; For, those Demands are made of the whole, the Bank does not fail in payment*". These are the 100% reserve banks. But he criticized those who opposed in principle the fractional reserve banking with apparently technical, but poor, arguments: "*Some are against all Banks where the Money does not lie pledg'd equal to the Credit. 1. They say the Demand may be greater than the Money in Bank. Secondly, If we are declining in our Trade, or Money, we are not at all, or are less-sensible of it: And if the Bank fail, we are in a worse condition than before. To the first it's Answered, tho the Nation had no Benefit by the addition the Bank makes to the Money; Nor the People by being supply'd with Money when otherwise they could not, and at less Interest; And tho the Proprietors had no gain by it: the other Conveniencies, as quicker and easier Payments, etc. are more than equal to that hazard; Or Bank Notes, Goldsmiths and Bankers Notes, would not be prefer'd to Money, every Body knowing such a stop may happen to the Bank, and that Gold-smiths and Bankers may fail. The other Objection is the same as to say, a Merchant who had a small Stock, ans was capable of imploying a greater; If a Sum were offer'd him without Interest, equal to what he had, and more as his own encreas'd, should refuse it, because he might fancy himself Richer than he was, and if his own Stock decreas'd, that Sum lent would be taken from him*". In fact, he ultimately reiterated that an artificial increase in the money supply is desirable because a larger money supply is better than a smaller money supply.

And the last argument with which he opposed the critics of the fractional reserve banking was very poor. To the critic that the increase in the money supply leaded to an exportation of specie to foreign countries (because of increased incentive to import which is the result of higher prices on the domestic market) he argued that the importer "*sends out Money of different Species. This does not hinder the Money to go out, but makes the Exchange dearer by 2 or 3 per cent, then it would have been if 40 Pence Pieces could have been got. And tho no other Money were left, but old Marks, if a Ballance is due these will go out, tho not worth 10 Pence: The Exchange will be so much higher, the profit of Exporting is the same; And so far from doing hurt to the Country, the Bank by furnishing such pieces as could be Exported to least loss, kept the Exchange 2 or 3 per cent lower than otherwise it would have been, and saved yearly the sending out a considerable Sum to pay a greater Ballance, the higher Exchange would have occasioned*".

John Law admitted that fractional reserve banking expands by its nature the money supply: „*The use of Banks has been the best Method yet practis'd for the increase of Money*". Obviously, for him this was not a problem as he failed to apprehend the impact of inflation on economic activity. The problem of fractional reserve banking is that it is intrinsically unstable. Any bank in such a system, because of competition, will explore the limits of its crediting capacity and, in consequence, it assumes an increased risk of failing to meet the payments for its on-demand deposits.

More challenging is the fact that although he realized the powerful redistribution of welfare associated with fractional reserve banking he did not make any ethical qualification of it [French, 1992, page 42]: "*Raising [debasing] the Money in France is laying a Tax on the People, which is sooner pay'd, and thought to be less felt than a Tax laid on any other way ... this Tax falls heavy on the poorer sort of the People*". His stance suggests that he always endorsed the public policy perspective.

Moreover, John Law does not realize that all his conclusions related to the relation between money and international trade was contingent on the use of the medium of exchange based on the same commodity, like silver. It is against logic the compare the money quantities of two mediums of exchange which are in fact two different commodities, like land and precious metal. You cannot speak anymore of an aggregate stock of money in Europe as you cannot compare apples and oranges.

International trade will still emerge in a monetary system with different fiat media of exchange as all is needed is different relative prices of two economic goods on two different markets. But, in that case, the manipulation of monetary policy in one (or both) country cannot but indirectly change the relative scarcity of economic (non-monetary) goods. It depends on how the two sectors of production receive the expansion of the money supply. Such a point reveals that monetary policy can alter the comparative advantage of nations through its impact on relative prices between non-monetary goods.

6. Richard Cantillon: the first of the moderns

Richard Cantillon has been considered as one of the first economists to advance a coherent system of economic theory. Several historians of economic thought have awarded him the quality of the "*father of political economy*", a quality usually associated with the Scottish economist Adam Smith [Rothbard, 1995, page 345]. Cantillon had numerous merits in the development of the economic science, like the opening of an epistemological debate, the advancement of a coherent – although debatable – theory of value, the exploration of the impact of the economic activity on the spatial organization of human communities. Among these contributions, the Irish economist advanced a coherent theory of money.

Cantillon underlined that the general level of prices in an economy is dependent on the money supply: „*Everybody agrees that the abundance of money, or an increase in its use in exchange, raises the price of everything*" or „*All this money, whether lent or spent, will enter into circulation and will not fail to raise the price of commodities and goods in all the channels of circulation it enters. Increased money will bring about increased expenditure, and this will cause an increase of market prices in the good years and to a lesser degree in bad years*". He restated this truth in different other forms: „*Whether money is scarce or plentiful in a state, this proportion will not change much, because where money is abundant, land is leased at higher rates and at lower rates where money is scarce. This rule will always be true, at all times*".

The Irish economist, as opposed to other contemporaries (John Law among them), perceived the economic impact of inflation on economic activity: „*In general, an increase of hard money in a state will cause a corresponding increase in consumption and this will gradually produce increased prices*". Moreover, he was aware that an increase in the money supply would not be equally reflected in the prices of all goods. He concluded that „ *by doubling the quantity of money in a state, the prices of products and merchandise are not always doubled ... The change in relative prices, introduced by the increased quantity of money in the state, will depend on how this money is directed at consumption and circulation. No matter who obtains the new money, it will naturally increase consumption. However, this consumption will be greater or less, according to circumstances*". This could be qualified as an early and original contribution to the body of economic thought.

7. Money and international trade

In manifest opposition to mercantilists, Cantillon considered that an economy which has a positive commercial balance (which normally leads to an influx of specie) could witness an increase in the stock of money which, in consequence, may lead to inflation. Such a "natural" inflation raises the prospects of an overall increase in the level of prices which, in a metal standard, will render the economy on the medium term uncompetitive. The Irish economist even proposed that „*the prince or the legislator ought to withdraw money from circulation, keep it for emergencies, and try to slow down its circulation by every means, except compulsion and bad faith, to prevent its goods from becoming too expensive and avoid the drawbacks of luxury*".

Such a perspective on the desirable role of "monetary policy" lacks, even from the part of Cantillon, a minimum confidence in the workings of the market economy. Cantillon shares with mercantilists the idea that the imports and exports should be equal. However, as opposed to them, he was fully aware of the impact of a long term positive balance of trade which consisted in the potential decrease in the purchasing power of money.

Obviously, it makes a lot of difference how the prince or the legislator „withdraws" money from circulation. It can do it by legitimate hoarding or aggressively enforced deflation. Cantillon seems to opt for the first and this could be, very interestingly, the only type of monetary policy that is compatible with a free market.

In a certain sense, Cantillon still included some widespread economic prejudices in his work. He also kept the error of considering that a larger supply of money in an economy is desirable as compared to neighboring economies. This conclusion seems to be counterintuitive to the vast majority of statements of the same author: „*It is clear that a state with more money in circulation than its neighbors has an advantage over them, so long as it maintains this abundance of money*". Why is an "*abundance*" of money desirable, even if he previously claimed that luxury can have drawbacks, is not so clear in his work. In this sense, a favourable interpretation can be advanced: if between Holland and Scotland there is a free circulation of goods and specie (that is, the same purchasing power of the monetary units between the two countries) and in Holland there is still a larger money supply, that could be interpreted as an advantage in development in the sense that Holland enjoys a larger internal market. The supply of money, in an economy, is the same as the domestic demand for goods. But there are other factors that still at work even in such a case.

8. Cantillon and interest

On the same position as John Law, Richard Cantillon did not advance a correct theory of the formation of the interest rate in an economy. He simply took over the idea that the interest rate is a monetary phenomenon: „*It is a common idea, accepted by all those who have written on commerce, that an increased quantity of money in a state decreases the rate of interest, because when money is abundant it is easier to find some to borrow*". He did not correlate the interest rate with the stock of capital goods and the social time preference, keeping it as a purely monetary dimension.

Despite such natural shortcomings for a pioneer, the work of the Irish economist contains valuable contributions to economics. Chiefly among them, his *Essai* contains one of the first spellings of a business cycle theory, deeply correlated with the explanation of the financial bubbles. The Mississippi Bubble offered to Cantillon the opportunity to reflect on this issue. He engaged at length in explaining how a sovereign could manipulate the money in order to appropriate wealth from society. He described how a reduction in the metal content of the monetary unit would lead, a la Gresham, to a shortage of "*good money*" (high metal content) in the society. All debtors will rush to pay their debts with the new legal tender and the widespread availability of the "*new money*" (low metal content) will lead to an inflationary economic expansion: „*Entrepreneurs and merchants find it easy to borrow money so that even the least able and the least creditworthy will expand their business. They borrow money with what they believe is no interest and load themselves with merchandise at current prices. The strength of their demand even causes prices to rise*". At that moment, imports will start to flow into the country (and the metal to leave out of it) and as the sovereign may initiate a deliberate policy of money shortage (hoarding it in the public coffers, delaying the payments to public servants and so on) will trigger the recession: „*Many entrepreneurs and merchants go bankrupt and their merchandise is sold at bargain prices*".

Such statements may confirm that the immediate expansion of money supply should lead to a deficit in the balance of trade.

This was practically the first time in the literature of political economy when someone traced a connection between the monetary policy and recession, what would later be called a "*cluster of entrepreneurial errors*" [Hulsmann, 1998, page 1]. For the first time, such recessions are taken out of the market phenomenon and described as results of public intervention. Representatives of the Austrian School of Economics have awarded to Cantillon the title of proto-Austrian due to its methodological approach as well as the content of the majority of his statements.

In actual terms, Cantillon explained how the costs associated with the profit of the sovereign (generated in the period of artificially induced shortage in the money supply) are socialized: „*The king makes a considerable profit by the mint tax, but it costs France three times as much to enable him to make this profit*". This is also one of the first statements in the history of social sciences regarding the redistributionist effect of inflation in society. It argued that monetary policy is not "neutral" and there is an ethics behind such public intervention. It is manifestly opposite to the perspective of John Law. It also suggested that this public policy tool may have more dramatic consequences that taxation.

9. Cantillon on banking

While Cantillon did not openly criticize the nature of the fractional reserve system, he highlighted the undesirable impact of the monetary expansion generated by this type of banking system. The Irish economist described how this banking system is dependent on the trust awarded by the clients to their bankers: „*If he has a great flow of deposits and great credit, it increases confidence in his notes, and makes people less eager to cash them. However, it only delays his payments a few days or weeks or until the notes fall into the hands of persons who are not accustomed to dealing with him. He ought to always manage his business according to the practices of those who are accustomed to entrust their money to him. If his notes fall into the hands of those in his own business [i.e., banking], they will immediately want to withdraw the money from him*".

He argued that bankers should understand the behavior of their clients, how they use the money deposited in the bank accounts in order to avoid a liquidity crisis. But Cantillon failed to openly qualify the system as bankrupt. As a banker, it is very possible that he applied such practices in relation to its clients as several clients sued him after the crisis.

One of its significant insights into the monetary field was the lack of trust in the national banks with a paper issuing monopoly: „*In the regular course of the circulation, the help of banks and credit of this kind is much smaller and less solid than is generally assumed. Silver alone is the true lifeblood of circulation*". He stressed that artificial increase in the money supply would eventually lead to inflation: „*An abundance of fictitious and imaginary money causes the same disadvantages as an increase of real money in circulation, by raising the price of land and labor, or by changing the value of money and goods only to cause subsequent losses. This furtive or unnatural abundance vanishes at the first gust of scandal and precipitates economic chaos*". Cantillon, as other contemporaries, had no idea of the limits of monetary expansion as they have never known the phenomenon of hyperinflation.

10. Conclusions

The legacy of the two economists is impressive. On the one hand, some commentators have qualified John Law, "*one of the most brilliant of the early eighteenth century*" [Wilson, 1948, page 383]. He is considered a forerunner of John Maynard Keynes or, as Murphy put it, "*Keynes can be termed post-Lawian*". His contribution to economics was considered to be underestimated till recently. These economists are perfectly right when they point that the core ideas of the theory of John Law lie at the foundation of contemporary economic and monetary policies. The wisdom that the money supply and the interest rate could be manipulated in order to increase economic output and reduce unemployment and that such mechanism could be accomplished only with fiat money lies at the core of policies of central banks today. America Great Depression is a good example in this context. Moreover, the reaction towards the 2008 financial crisis was of the same nature. Moreover, the manipulation of monetary policy has a deep impact on the international trade of a country.

On the other hand, the contribution of Richard Cantillon was rediscovered by Stanley Jevons (who considered his work as one of the most important contribution in political economy) and praised by later economists both from the mainstream as well as other schools of thought like the Austrian economics. Thornton [Thornton, 2011] summarized the tribute that Austrian School of economics has to pay to the Irish economist, concluding that "*the origins of economic theory itself can be traced to Cantillon*". For Friederich Hayek, Joseph Schumpeter or Murray Rothbard, he could be called the "*father of modern political economy*". The core ideas they exposed lies at the core of even today's debate on public policies.

Acknowledgement

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HOFSTEDE'S DIMENSIONS IN PORTUGAL

Oana Preda*

Abstract

For those who work in international business, it is sometimes amazing how different people in other cultures behave. We tend to have a human instinct that 'deep inside' all people are the same - but they are not. Therefore, if we go into another country and make decisions based on how we operate in our own home country - the chances are we'll make some very bad decisions.

Geert Hofstede's research gives us insights into other cultures so that we can be more effective when interacting with people in other countries. If understood and applied properly, this information should reduce your level of frustration, anxiety, and concern. But most important, Geert Hofstede will give you the 'edge of understanding' which translates to more successful results.

Keywords: Small Power Distance, Large Power Distance, Individualism, Collectivsm, Masculinity, Femininity, Uncertainty Avoidance

JEL Classification: M31

1. Introduction

Gerard Hendrik Hofstede is an influential Dutch organizational sociologist, who studied the interactions between national cultures and organizational cultures. He is also an author of several books including *Culture's Consequences* and *Cultures and Organizations, Software of the Mind*, co-authored by his son Gert Jan Hofstede. Hofstede's study demonstrated that there are national and regional cultural groupings that affect the behavior of societies and organizations, and that are very persistent across time

.

2. Hofstede's Dimensions

According to Hofstede the way people in different countries perceive and interpret their world varies along four dimensions:

- Small vs. Large Power Distance (Power Distance Index)
- Individualism vs. Collectivsm (Individualism Index)
- Masculinity vs. Femininity (Masculinity Index)
- Uncertainty Avoidance (Uncertain Avoidance Index)
- Long vs. short term orientation - describes a society's "time horizon," or the importance attached to the future versus the past and present. In long term oriented

* Oana Preda is Associate Proffesor at the Romanian American University from Bucharest, email ocpreda@yahoo.com

societies, values include persistence (perseverance), ordering relationships by status, thrift, and having a sense of shame; in short term oriented societies, values include normative statements, personal steadiness and stability, protecting ones face, respect for tradition, and reciprocation of greetings, favors, and gifts. China, Japan and the Asian countries score especially high (long-term) here, with Western nations scoring rather low (short-term) and many of the less developed nations very low; China scored highest and Pakistan lowest.

This last dimension was added in the 80's and represents the differences between the chinese cultures and all the other cultures.

Power Distance Index refers to the inequality between people in physical and educational terms. Hofstede's Power Distance Index measures the extent to which the less powerful members of organizations or institutions, such as family or companies, accept and expect that power is distributed unevenly.

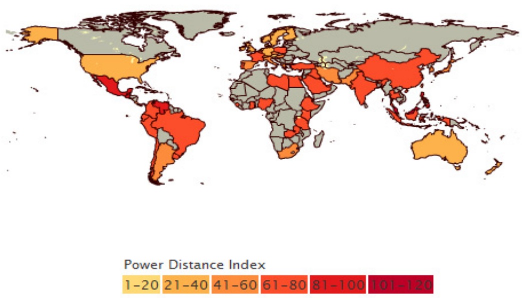

Fig.1. Power Distance Index in the World [Schwarz-Musch, D. A.(2009)]

Individualism Index denotes the degree to which people in a country learn to act as individuals rather than as members of groups. On the individualism side we find societies in which the ties between individuals are loose and, on the other hand, on the collectivism side we find societies in which people from birth are integrated into groups which often are extended families.

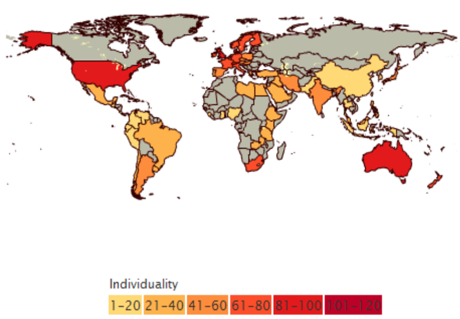

Fig.2. Individualism Index in the World[Schwarz-Musch, D. A.(2009)]

Masculinity Index relates to the degree to which "masculine" values like performance or success prevail over "feminine" values such as quality of life or care for the weak.

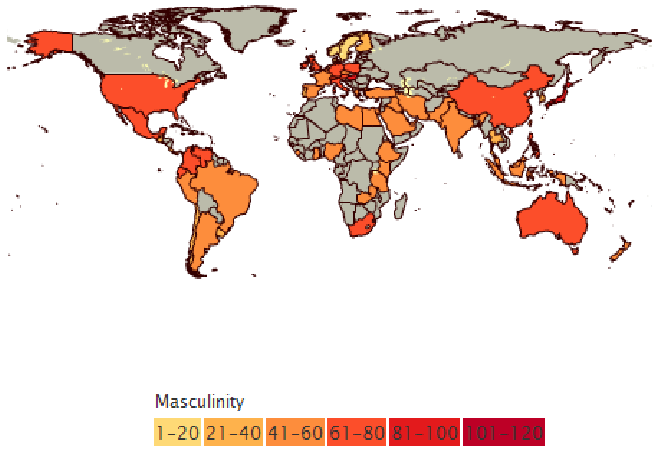

Fig.3. Masculinity Index in the World[Schwarz-Musch, D. A.(2009)]

Uncertain Avoidance Index concerns the degree to which people in a country prefer formal rules and fixed patterns of life as means of enhancing security. Countries with high uncertainty avoidance are probably countries with risk aversion.

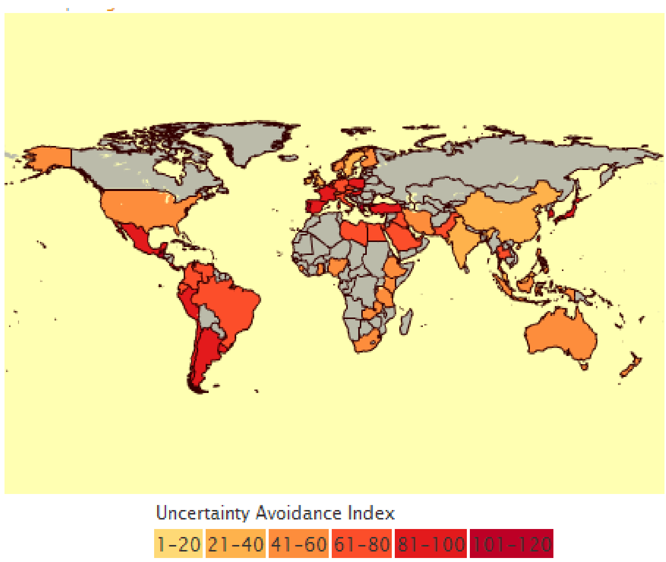

Fig.4. Uncertain Avoidance Index in the World[Schwarz-Musch, D. A.(2009)]

3. Portugal and the European Countries according to Hofstede's Dimensions

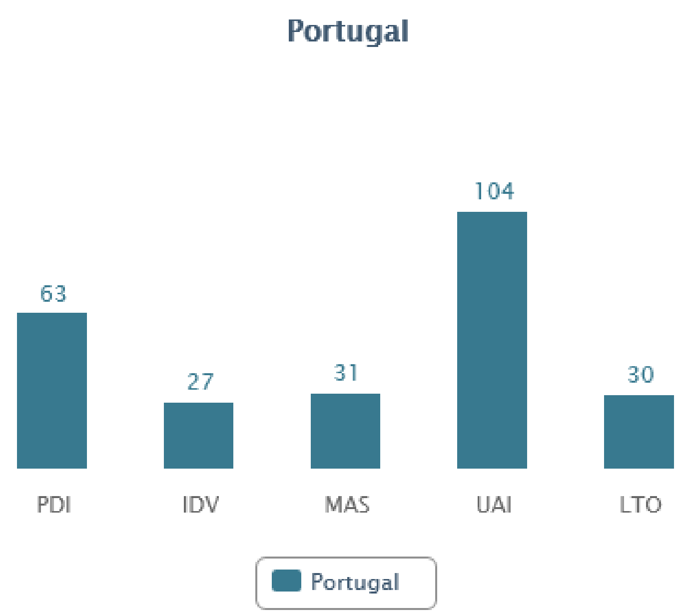

Fig.5.Hofstedes' Dimensions in Portugal[http://geert-hofstede.com/portugal.html]

As can be observed in the graphic above, in Portugal the consumers have a relatively high Power Distance Index, around 63%, reflects that hierarchical distance is accepted and those holding the most powerful positions are admitted to have privileges for their position.This means that is accepted by the consumers with lower income that there are some products that they cannot afford or where created for a public with bigger financial possibilities.

Management controls, i.e. the boss requires information from his subordinates and these expect their boss to control them. A lack of interest towards a subordinate would mean this one is not relevant in the Organization. At the same time, this would make the employee feel unmotivated.

Negative feedback is very distressed so for the employee it is more than difficult to provide his boss with negative information. The boss needs to be conscious of this difficulty and search for little signals in order to discover the real problems and avoid becoming relevant. [http://geert-hofstede.com/portugal.html]

The Individualism Index is low, around 27%, which might be bad for the companies who are trying to succeed in the Portuguese market. This low index means that in Portugal people might not accept well change. They are use to certain costumes, certain brands, probably related to the groups where they are inserted in (collectivism) and they very hardly will accept changes to those costumes and brands.

Loyalty in a collectivist culture is paramount, and over-rides most other societal rules and regulations. The society fosters strong relationships where everyone takes responsibility for fellow members of their group. In collectivist societies offence leads to shame and loss of face, employer/employee relationships are perceived in moral terms (like a family link), hiring and promotion decisions take account of the employee's in-group, management is the management of groups. [http://geert-hofstede.com/portugal.html]

The graph bellow shows the correlation between the Individualism Index and the percentage of a new product that has been talked about but never tried to be accepted in the countries.

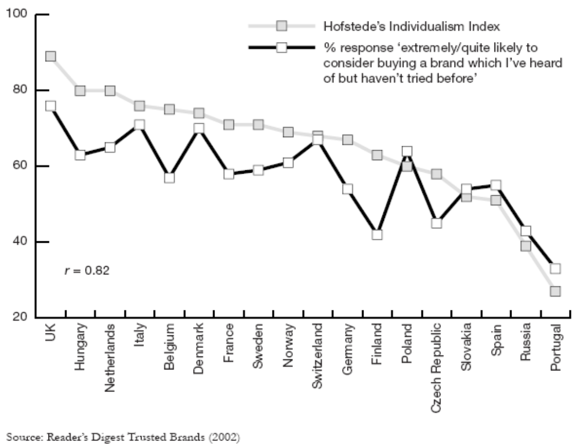

Fig.5. The Individualism Index and the percentage of a new product that has been talked about but never tried to be accepted in the countries. [Reader's Digest, Trusted brands, 2002]

Portugal scores 31 on masculinity vs feminity index shows that this is a country where the key word is consensus. So polarization is not well considered or excessive competitiveness appreciated. In feminine countries the focus is on "working in order to live", managers strive for consensus, people value equality, solidarity and quality in their working lives. Conflicts are resolved by compromise and negotiation. Incentives such as free time and flexibility are favoured. Focus is on well-being, status is not shown. An effective manager is a supportive one, and decision making is achieved through involvement. [http://geert-hofstede.com/portugal.html]

Portugal scores 104 on the Uncertain Avoidance Index dimension and thus has a very high preference for avoiding uncertainty. Countries exhibiting high uncertainty avoidence maintain rigid codes of belief and behaviour and are intolerant of unorthodox behaviour and ideas. In these cultures there is an emotional need for rules (even if the rules never seem to work) time is money, people have an inner urge to be busy and work hard, precision and punctuality are the norm, innovation may be resisted, security is an important element in individual motivation. [http://geert-hofstede.com/portugal.html]

This is the dimension that defines Portugal very clear.

On the last dimension Portugal scores 30, making it a short term orientation culture. Societies with a short-term orientation generally exhibit great respect for traditions, a relatively small propensity to save, strong social pressure to "keep up with the Joneses", impatience for achieving quick results, and a strong concern with establishing the Truth i.e. normative. Western societies are typically found at the short-term end of this dimension, as are the countries of the Middle East. [http://geert-hofstede.com/portugal.html]

The long term orientation dimension is closely related to the teachings of Confucius and can be interpreted as dealing with society's search for virtue, the extent to which a society shows a pragmatic future-oriented perspective rather than a conventional historical short-term point of view.

Table no.1. Hofstede's Cultural Dimensions scores in EU

Country	*PDI*	*IDV*	*MAS*	*UAI*
Austria (AT)	*11*	*55*	*79*	*70*
Belgium (BE)	*65*	*75*	*54*	*94*
Bulgaria (BG)	*70*	*30*	*40*	*85*
Czech Republic (CZ)	*57*	*58*	*57*	*74*
Denmark (DK)	*18*	*74*	*16*	*23*
Estonia (EE)	*40*	*60*	*30*	*60*
Finland (FI)	*33*	*63*	*26*	*59*
France (FR)	*68*	*71*	*43*	*86*
Germany (DE)	*35*	*67*	*66*	*65*
Greece (EL)	*60*	*35*	*57*	*112*
Hungary (HU)	*46*	*80*	*88*	*82*
Ireland (IE)	*28*	*70*	*68*	*35*
Italy (IT)	*50*	*76*	*70*	*75*
Luxembourg (LU)	*40*	*60*	*50*	*70*
Malta (MT)	*56*	*59*	*47*	*96*
Netherlands (NL)	*38*	*80*	*14*	*53*
Poland (PL)	*68*	*60*	*64*	*93*
Portugal (PT)	*63*	*27*	*31*	*104*
Romania (RO)	*90*	*30*	*42*	*90*
Slovakia (SK)	*104*	*52*	*110*	*51*
Spain (ES)	*57*	*51*	*42*	*86*
Sweden (SE)	*31*	*71*	*5*	*29*
United Kingdom (UK)	*35*	*89*	*66*	*35*

Reference: Hofstede [2003] For BG, EE, LU, MT, PL, RO and SK: http://www.urbanministry.org/wiki/geert-hofstede-cultural-dimensions

The population of the European countries is changing. Families are having fewer children and the older population is increasing. Consequently, the traditional age structure is being transformed very fast. Fewer young people will be available in the labor market, while older people as well as minority groups that have been facing exclusion and depravation will be more and more available, accessible and needed. Moreover, reconciling family and professional life will be necessary together

with the idea of the integration of men and women by reducing gender gaps and supporting job desegregation.

Managing diversity is a precondition to guarantee equal opportunities in this way. The statistics studied here report how countries in the European Union are dealing with these wholesale changes which demand more inclusion.

Generally speaking, the advantages and disadvantages of the cultural dimensions that can influence the implementation of diversity practices, either as an impulsive force or limited one, are determined by the score of the dimensions in each country. Lower levels are more attractive for diversity policies because the values correlated create a better environment in the society by stimulating more respect, the acceptance of differences and the inclusion of minority groups.

4.Conclusions

After carefully analyzing the data we can see that the Portuguese market is a bit different of the average of the European Countries. In fact the only similarity is the Uncertain Avoidance Index both with high percentages but for different reasons.

The Portuguese market is more closed to changes that the European Countries average. There is a strong sense of unequal power distribution, and by power I mean purchasing power. There is also the feeling of belonging to a group which is not willing to change their habits and embrace new products in their culture. In the other hand in the average of the European Countries, there is a bigger degree of acceptance to change in the market as well as a lower feeling of purchasing power differences. The people act in a more individualist way which makes them more flexible to replace their usual products by new ones.

In Portugal quality prevails in opposition to quantity. There are more demand for basic goods and products which are used in a daily bases then to luxurious and superfluous goods. In contraposition, on the average of the European Countries, there is a prevalence of quantity contrary to quality.

Finally and the only similar index in the both graphics is the Power Distance Index. Even though both indexes have high percentage, there are different reasons. In Portugal this index is high because there is no big flexibility for a change in the market by all the aspects we have seen. On the other hand in the average of the European .

Countries there is flexibility and change and new products might come into the market but they are obliged to fulfill strict regulations, which are also occurring in Portugal.

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ORGANIZATIONAL CHANGE- DIFFERENT APPROACHES

Georgiana Surdu[1]
Valeriu Potecea[2]

Abstract

As organizations decide to expand on other markets, managers are facing with new problems and realities. If thirty years ago, companies afford to ignore the international business environment, today they need to think globally.

This new dimension of international business was made possible by unprecedented growth of telecommunications, technology, transport and the existence of international standards. The article aims to analyze the main reasons for organizational change, in terms of contingency theory and strategic approach.

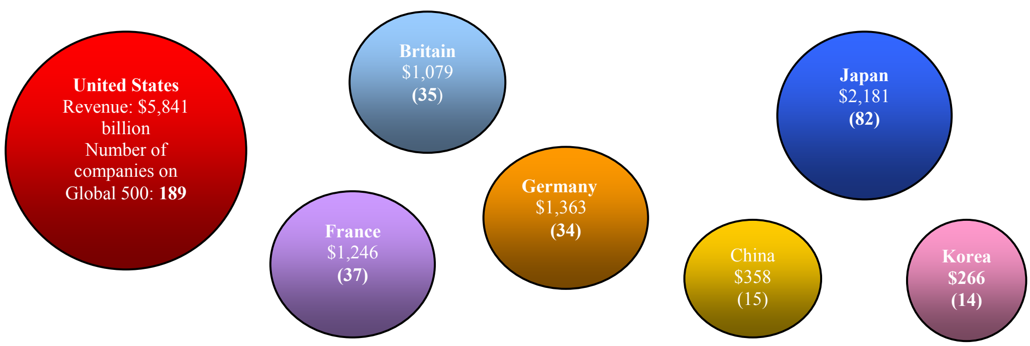
Key Words: *organizational structure, contingency theory, strategic approach*

JEL Classification: M14, M16

1. Introduction- organization size

Economic, technological, and competitive forces have combined to push many companies from a domestic to a global focus. The importance of the global environment for today's organizations is reflected in the shifting global economy. As one indication, Fortune magazine's list of the Global 500, the world's 500 largest companies, indicates that economic clout is being diffused across a broad global scale. In Exhibit 1, each circle represents the total revenues of all Global 500 companies in each country. Although the United States accounts for the majority of the Global 500 revenues, a number of smaller and less-developed countries are growing stronger.

Exhibit 1. *New global environment for multinational companies*



Source: *Morgan Gareth, Images of Organization, Sage Publications, Thousand Oaks, California (2006)*

[1] Romanian-American University, Bucharest
[2] Romanian-American University, Bucharest

Other countries with fewer companies are***: Spain, Mexico, Switzerland, Netherlands, Canada, Sweden, Finland, Australia, Malaysia, India, Brazil and Italy.***

The dream of every businessperson is to have his or her company become a member of the Fortune 500 list, to grow fast and to grow large. Sometimes this goal is more important and urgent than to make the best products or show the greatest profits.

But my question is: is bigger better? Huge resources and economies of scale are needed for many organizations to compete globally. Only large organizations can build a massive pipeline in Alaska, for example. On the other hand, the competing argument says small is better because the crucial requirements for success in a global economy are responsiveness and flexibility in fast changing markets. Small scale can provide significant advantage in terms of quick reaction to changing customer needs or shifting environmental and market conditions.

For example, Dow Chemical's company main objective in the 90's was: ***becoming the largest, most competitive and profitable company in its branch***. In 2008, after reorganizing the company's organizational structure the Dow Chemical company main objective is: ***being the most competitive and profitable in its branch.***

The paradox is that the advantages of small companies sometimes enable them to succeed and, hence, grow large. Most of the 100 firms on Fortune magazine's list of the fastest-growing companies in America are small firms characterized by an emphasis on being fast and flexible in responding to the environment. Small companies, however, can become victims of their own success as they grow large, shifting to a mechanistic structure emphasizing vertical hierarchies and spawning "organization men" rather than entrepreneurs. Giant companies are ***"built for optimization, not innovation".***

2. Organizational design theories

Managers are concerned with three related goals when they make design decisions:

- To create an organization design that provides a permanent setting to which managers can influence individuals to do their particular jobs.
- To achieve a pattern of collaborative effort among individual employees, this is necessary for successful operations.
- To create an organization that is cost effective- one that achieves the first two goals with a minimum of duplication of effort, payroll costs, and so on.

Recent managerial experience and organizational research have provided an approach for thinking about organization design issues. This approach emphasizes that the characteristics of an organization are contingent upon various situational factors, the tasks that members must perform to accomplish the firm's strategy in this environment, and the psychological characteristics of the members.

The framework of ***contingencies*** (denominated "situational" by Lorsch-1977) emphasizes the need to study the influence of circumstances (contingencies or situations) on organizational structure and administrative behavior, while the ***strategic choice approach*** shifts the focus to the decisions made by the organization's leaders in terms of products and markets and their impact on organizational forms, i.e. it integrates strategy into the model and assumes that manager' perceptions, preferences and choices interact with the process of adjustment to the requirements of the environment in order to achieve objectives (Child, 1972).

Although the contingency framework has generated numerous (mainly empirical) studies of the different factors that contribute to organizational design, this research has mostly focused on describing their influence individually and in isolation. This type of analysis concludes that bureaucratic organizational structures are more appropriate in stable and predictable environments, while a less formalized and centralized organizational structure is more suitable in unstable and unpredictable environments (Burns and Stalker, 1961); furthermore, a functional hierarchy is argued to be desirable in situations where products are related in terms of technology, but with increasing diversity of products and markets (diversification), divisional structures (Galbraith and Kazanjian, 1986) are more desirable. Finally, more flexible (decentralized and divisional) organizational structures are needed in new markets, while over time, as the organization acquires experience and tasks become increasingly predictable, a more centralized and functional structure is required (Hollenbeck, 2000).

One of the most common and relevant research topics in the field of contingency or situational theory involves analyzing the effect of a set of mainly external factors on the design of an organization in order to verify the most efficient organizational structures (Powell, 1992; Baligh et al., 1996; Forte et al., 2000; Pettigrew et al., 2000; Meilich, 2006).

This theory began with the work of Burns and Stalker (1961), who argued that the appropriateness of an organizational structure depends on environmental conditions. According with this, Lawrence and Lorsh (1967) state that companies which match their internal characteristics to environmental requirements perform better. Accordingly, it is not possible to establish an ideal organization for all situations (Galbraith, 1973).

The work of these authors reflects the main foundations of contingency theory:

- The focus is on the business environment, with less importance being ascribed to internal elements.
- The alignment between organizational designs and environmental factors leads to better performance.
- There is no optimal organizational form for all circumstances

In contrast to this theoretical approach, which seeks to downplay a company's ability to influence its performance (in the form of adaptation to the chosen environment) in favor of a purely reactive response to the demands of the environment, the approach known as strategic choice gives greater importance to the effects of strategic decisions made within the company itself.

Although some authors in the field of situational theory (Chandler, 1966; Rommel, 1974) considered strategy as the process by which an organization adapts to environmental pressures but without being able to influence them, the strategic choice perspective places greater emphasis on the active role of leaders, the powerful impact they can have on organizational design, and how they respond to the situational factors that contribute to their preferences (Child, 1972, 1997; Miles and Snow, 1986).

3. Changing organizations

All organizations must constantly adapt and innovate not only in products and services but in management structures and working practices. Organizations are told that they must reinvent themselves. The magnitude and the extent of the changes to be made are important and can generally be classified as follows:

- ***Macro level change.*** This type of change is transformational, comprehensive, revolutionary and discontinuous. It represents a break with the past. It generally results in a complete overturning of previous organizational structures and processes.
- ***Micro level change-*** which occurs daily at the operational level. This type of change is localized and evolutionary in nature, building on past performance over time, leading to improvements such as better team work and improved communications

Leavitt[3] suggests organizations can create change by intervening in 4 areas:

- *Tasks; goals and strategies on one level to individual jobs*
- *Organization; structures, systems and procedures*
- *Technology; new equipment, work methods, information systems*
- *People; replacing, reducing, expanding, re-training*

Change is usually associated with progress, however, today's organizations have to predict and create their own change. Change is being driven by the need to develop the ability to compete, grow and survive in an increasingly competitive environment that is re-shaping the very nature of business.

The key pressures for change can be attributed to the following environmental forces:

- *Market forces*:
- *Technological advances*

[3] **Leavitt, H. J**. (1964) *"Applied organizational change in industry"*, in Cooper, W. et al *New Perspectives in Organizational Research,* Wiley

- *Political and economic*
- *Internally*

The three step model, attributed to Lewin[4], observed that changes and consequent improvement in group performance is short lived. After a period of time, behaviors revert back to previous. In order for change to succeed, old patterns of behavior must be discarded before new behaviors are adopted. For this to occur there must be recognition for the need for change to occur. Therefore if change is to be successful the new behaviors must be embedded in and secured for the future. To do this he suggests three steps (table 1).

Table1. *Lewin's three step model*

Step 1 **Unfreezing the present**	*Forces that maintain current behavior are reduced through analysis of the current situation. Imperatives for change are realized through dialogue and re-educational activities such as team building and personal development.*
Step 2 **Moving to a new level**	*Having analyzed the present situation, new structures and processes are put in place to achieve the desired improvements.*
Step 3 **Refreezing the new level**	*The changes implemented are then 'frozen' in place to ensure that they become part of normal working procedures. This is done by putting in place supporting mechanisms such as policies, procedures and reward systems.*

The three step model is somewhat general and broad and over the years has been developed and expanded by other commentators.

The contingency theory of leadership and change offers some help to manage change effectively. Leaders must do whatever the circumstances necessitate. In other words 'it all depends'. This is an attractive concept to some. It avoids prescriptive suggestions and is non-judgemental, but such an approach could be seen as inconsistent. The approach suggests that the best approach to use 'depends on the circumstances'. The aim is to distil useful generalizations about various change management strategies and apply them to given certain conditions. Nonetheless, when individuals have not been prepared for or involved in the change to take place, rumor can abound resulting in concern and resistance. This can be due to:

- *fear of losing job, loss of status*
- *inability to see the need for change*
- *unfavorable view of the person leading the change*
- *not consulted*

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[4] **Lewin, K.** (1958) *"Group decisions and social change"*, in Swanson, G. et al. *Readings in Social Psychology*, Holt, Rhinehart & Winston

- *perception that change will create more work*
- *the negative influence from others, colleagues and peers.*

Change can be particularly threatening for individuals during times of economic uncertainty. However getting people on board is crucial to any change effort.

On the other hand, acceptance of change can be influenced by perceptions of:

- *improved working conditions, increase in pay, benefits*
- *opportunities for growth, development, recognition, promotion*
- *potential for new challenges*
- *a feeling that change is required*
- *respect for the person or department introducing the change*
- *being able to contribute to the change.*

4. Conclusions

The challenge facing today's organizations is how to implement change that will drastically affect the organization's ability to improve performance. Change management skills will be vital for organizations to succeed in the next century. Managing change is now a core competence for all organizations, not just for those with structural or financial problems: Regardless of the industry, all organizations will have to create new rules and identify the team players that will help them take it forward.

How to transform your organization or manage change cannot be prescribed by any one model of change management. Extract the key principles of change that seem to 'fit' with your organization, its strategies and culture. It is hard to offer a clear answer regarding which to be the size, the moment or the strategy that a company should follow in order to achieve success.

Future organizations will have to create a more dynamic and flexible environment as structure and culture, in order to face global competitiveness, economical change, industry changes and innovation,

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CERTAIN ASPECTS REGARDING THE TOURISM PRODUCTS' FEATURES

Iosif Török, Monica Tion*

Abstract

The authors of this publication believe that, once the main features of a tourism product are known, tourism services that can adequately see to the potential consumers' needs can easily develop in perfect harmony with the targeted area in which they would be implemented.

This instance is no stranger to this method; after elaborate definition and research regarding the products' aspects and its acceptability in the desired area of implementation, the Baile Herculane tourism product has been developed.

Keywords: tourism product, tourism services, Baile Herculane.

JEL Classification: JEL M31, JEL M21, JEL M11

1. Defining the tourism product:

Starting from the base concept of produce, the tourism product is defined as an ensemble of material goods and services capable of satisfying the tourism needs of a consumer in the given timespan between the departure moment and the moment of arrival in the departure space. Thus, the tourism product is made up of material goods and services.

2. The tourism product on three levels

In order to fully grasp the products features, Ph. Kotler, defined the product as a combination of elements laid down on three levels: the central product, the tangible product and the developed product. By extending this concept we can assess the following aspects of the tourism product as a whole:

a. The central tourism product, situated at the centre of the total tourism product, it represents what the consumer is actually purchasing. This level of the product can be obtained via the following questions: What does the consumer obtain from buying this product? What advantages does he hope to obtain upon consumption?

b. The tangible tourism product encompasses the features of the product, mainly: level of quality, characteristics, style, brand name.

* Iosif Torok is Lecturer at the „Tibiscus" University of Timisoara. iosif_torok@yahoo.com
Monica Tion is Lecturer at the Polytechnic University of Timisoara. tionmonica@yahoo.com

c. The developed product encompasses all the additional aspects of the product, aspects that the consumer enjoys before, during and after purchase of the product (insurance, information services, reservation, rentals, mediation, etc.). Also, the developed product also encompasses accessibility, climate and consumers' interaction with the service system, consumer interaction per se and the participation of the consumers in its development.

3. Tourism product classification

Based on the number of services they may contain, tourism products fall under the following categories:

- *Integral*, or megaproducts, which are complex products, formed from all manner of basic and auxiliary services which have already been described;
- *Compound products*, whose formulae lack certain base services (transport, in the instance that tourists travel with their own vehicles, housing, when the tourist stays at friends or relatives during the consumption of the product, meals, etc);
- *Simple products*, which offer a single basic service, other aspects not being included in the product offer, such aspects being available via self-sustenance or donation.

Even though tourism products are perishable, based on the duration of the tourists' motivation, or on how long the offer stands, they can fall under the following categotries:

- *Durable*, when the needs and the possibilities to meet them are being maintained a certain period of time, such aspects being tied to durable tourist attractions; it is under that category that we will find the Baile Herculane tourism product, for example;
- *Non-durable*, in which case the period of time allocated by the offer is minimal (such as those for political rallies).

Bearing in mind the products' nature and generated motivation, such products can be (like tourism in general): cultural, historic, sports-related, medical, family-wise, business, etc.

Based on the duration of the sojourn, the following categories distinguish themselves:

- Long lasting sojourn, or vacations, which last relatively long;
- Short-term sojourn, which can last only a few days;
- One day only sojourns, like a field trip;

Based on the distance travelled, services divide into:

- Short-distance (meaning the same region);
- Medium distance (in the same country);
- Long distance (interstate or intercontinental);

Based on the calendar and season, tourism services fall under:

- On-season, including summer period (July-August), when most holidays are scheduled, or on Christmas Season, etc.
- Off-season, meaning the rest of the year;
- Occasional;

Taking into account the number of people joining in we have:

- Individual;
- Family trips;
- Group trips;

Based on the way the holiday unfolds, tourism services fall under:

- Itinerant, when tourist attractions targeted by the beneficiaries are placed in different areas, consumers visiting each (usually in a closed circuit);
- Sojourn, when a beneficiary consumes the product in the same place;

Based on **several already-mentioned criteria**, the basic profile operates on the following types of tourist products:

- *Invariable products*, whose structures encompass all the afore-mentioned products (information, reservation, lodging, meals, entertainment) and contributes to satisfying the needs of a person or collective, offering them a final product (usually by a tour agent);
- *Resorts*, which represent a market with only one sojourn (sports base, entertainment, congress centre, bath resort, etc.);
- *Event-related products* (sports, cultural, recreation) whose life-spans are very short and feature high-risks (mainly because of shallow character of the operation and high competition), huge organisational and promotional effort and other difficulties.

4. Conceptual barriers of the tourism product

Although some experts argue the **goods** have the specific feature of being tangible products while services are being offered (without tangible form) and with the expression "goods and services" being often used, by goods we still understand every aspect that gives satisfaction upon consumption, upon use or possession, whether it has a material form or not. We approve of these aspects in light of utility theories, because if a product doesn't offer satisfaction it means that the product is "not good", being a useless, or even worse, a bad product. Even the expression "material goods", which is so often used, allows room for immaterial goods as well. This being said, the term "good" has a very wide register, referring to what language would describe as product and services.

On the other hand, when we say product we mean a material good that is capable of satisfying certain needs. In marketing, to this notion we have a bigger meaning attributed: designating an ensemble of physical features and characteristics of any other tangible nature, all reunited in an identifiable form. Thus, a product can be: an object, a service, an activity, a human being, a place, an organisation, an idea, or the result of a process (even a natural one).

It is imperative to note that the concept of product encompasses that of a service. In a certain sense, the sphere of influence of a product is larger than that of goods. Falling into this category are all the elements that are not "good" for man, these being the results or by-products of certain processes.

Material goods are those products that present themselves as material bodies with stable shape and size. Such products can be used whenever or wherever the consumer decides.

Services are being defined as products, without shape or size, that do not offer the notion of property or belonging to consumers or users, services being consumed only at a given time and place.

Compared to material goods, **services** (even tourism-related services) present several features.

a. Immaterial form is the main feature of services, from which all others derive.
b. Impossible to stock is the second aspect. Not having a material shape, they cannot be stocked when demands are low, in order to sell when the market is favourable.
c. Partial offer rigidity compared to demand is a feature that flows from the other two. This means that, on short-term, the tourism service offer cannot be increased without damaging quality.
d. Concomitance of production and consumption is another feature with profound impact on the marketing policies of service rendering companies, the possibility of a time lapse between production and consumption being impossible. As a result, the provider and the consumer are always in touch, the consumption taking place right before the producers' eyes, in his own perimeter, and very rarely within the premises of the consumers' household. For example, in order to enjoy travel services, you must first board the providers' vehicle; in order to consume a theatre show, you must be in a theatre room, etc. Even if you cannot separate production from consumption, this doesn't mean that exchange would be an inseparable aspect of the two processes. Making a hotel room reservation for one night, for example, is a service that can be bought long before obtaining and consuming the product.
e. Production inseparability from consumption leads to another special feature: in this case, certain negative aspects regarding quality cannot be separated after purchase. Preventing and not repairing should be a main concern for maintaining customers.
f. The perishable aspect is also a general feature of a service (in the case of material goods, this aspect is encountered only rarely). Service production is interpreted as de ability to produce, which may or may not be used. That is why is it is not used to its' maximum potential, the loss is permanent. For example if a 100 seat bus travels with only 10 people, or if a show would take

place in a 1000 seat-room, but only before 200 people, etc., those services take place at their fully potential but at reduced income, their usefulness ending in the same moment the processes that produce them reach their end (which could not happen to a shirt, for example, which, if not sold today, could be sold some other time, maintaining its' usefulness in the future).

5. Tourism product features

A basic component of marketing mix, the product policy covers a wide range of activities that highlight its' contents:

1. Product research means studies that target quantity and quality of the analysed product. This aspect acts like an analysis and diagnostic which allows the identification of weak and strong points in the product or product range.
2. Innovation activity is the factor that gives the product policy its' offensive aspects. It affects certain activities regarding the product and target-audience, and it stretches the producers' abilities and resources.
3. Moulding the product follows the desire to customize the product based on client demands, which can be seen from market studies.
4. The products' legal insurance is given by the legal actions that protect the product.
5. The attitude towards older products shows if the producer is or is not giving up on liability products.

Product policy must be correlated with price policies, publicity, otherwise some initiatives regarding the product might be fully or partially annihilated by the other marketing variables. The main possible directions that are to be followed in the tourism product policy are found, obviously, within the strategies adopted by the producer:

- The stability of the product range;
- Limiting the product range;
- Diversification of the product range;
- Diversification of product;
- Perfecting tourism products;
- Renewing the product range;

As we have shown, the difference between service marketing and sports-related tourism marketing, unlike other subjects, stems from the nature and characteristics of these aspects. They highlight all the aspects of the mix. The deepest aspects are found, naturally, in the product policy. The policy targets the product contents, creating and deploying adequate strategies. The product contents is expressed by the basic elements their services, approached from a marketing point of view.

Highlighting these aspects stems from the concept of a previously presented service. Understood as a mass of activities destined to satisfy certain needs, the product offered to all clients is presented as a global service, built from a series of services falling under the following categories: basic, auxiliary and secondary.

The basic service represents the motive behind the existence of a firm on the market. It becomes the main activity of a service-rendering company (ex: an airlines' service is transport while a hotel renders lodging). In order to provide a basic service, a series of auxiliary services must be provided first-hand (an airline, in order to transport passengers, provides check-up services for passengers and their luggage as well as in-flight services. A hotel offers reception services before lodging). Last but not least, secondary services are activities that sustain the basic service. They do not facilitate its function, but increase its value and highlights it out from the rest of the products. Sometimes, in this aspect we find only material goods (shampoo, soap and the daily newspaper delivered to your hotel room, etc.). The difference between auxiliary and secondary services is a blurred line. The same service could be auxiliary or secondary, depending on the situation (serving an in-flight meal during a continental flight is an auxiliary service, while during a short flight it is considered secondary). Usually auxiliary services are mandatory because without them we can't have the basic service, while the secondary ones are optional, the basic service being able to exist and function without them, albeit less attractive and competitive.

Although important in defining the product, grouping services in these categories proves insufficient in offering a clear image on their contents. Capturing some specific elements means considering some aspects regarding the intangibility, quality and clients' participation regarding a service. This intangibility raises a number of questions regarding market approach. This aspect acclaims the identification of methods that might diminish any implication towards product policy. Such an undertaking starts from realising that providing services is always closely-related to material, tangible aspects that the client comes in contact with. The number of these aspects tends to be quite high, differing from a service category to another.

Beginning with the place in which provider-consumer interactions take place, these aspects can fall under the following categories: ambiance, material aspects required for service providing, and the materials the personnel requires.

Ambiance, includes all the material aspects that insure an adequate picture in which provider-consumer interactions take place: building, furniture, functional aspects of organisational features, etc.

The material elements required to provide services differ from one service category to another. Even the simplest of services require a modicum of immaterial aspects to run along with providing. In the case of equipment dependant services, the list could go on for quite a while. For example, transport vehicles that insure transport services require electronic apparatus for the financial aspect.

Personnel requirements are made-up of elements that directly concern the intangible components. They encompass: physical aspects, wardrobe (uniform or individual) and company-offered gifts.

Service quality represents another particular aspect of a product, determined ultimately by intangibility. It expresses the measure of satisfaction in regards to consumer demands. As a consequence, quality is appreciated by the consumer. Service quality has long been approached by specialised writers. Research has targeted the direction of defining, appreciating and moulding quality. With all the discretion of the services and the difficulty with which they can be appraised, the following features have been identified:

a). Providing the service in the utmost conditions by respecting the contract and carriage in the best conditions. This means writing the checks, proper accounting and providing the service on time.

b). The provider must manifest maximum responsibility, expressed mainly by receptivity and the desire to answer the consumers' call. Such demands imply prompt service, optimal transactions, phone assistance, etc.

c). Quality personnel, insured by qualified staff and specialised knowledge.

d). Service accessibility insured by easy contact with the provider (transport, parking space), schedule, time elapsed, etc.

e). The staff civility, politeness, respect and friendship; Communications which insure the informing the consumer is done in an adequate manner, although adapted to different consumers. This may imply describing a service to a consumer, its prices and persuading the consumer that the service will be provided.

f). Company credibility insured by name and reputation, staff-specific traits and the depth of the relation between provider and the consumer.

g). Safety, which means eliminating any danger, risk or doubt regarding the service provided. This could refer to physical safety, financial or just customer confidentiality.

h). Understanding basic consumer needs, which means customising needs and relationships.

i). Tangible elements that must be as attractive as possible: confortable waiting rooms, nicely dressed staff members, modern apparatus.

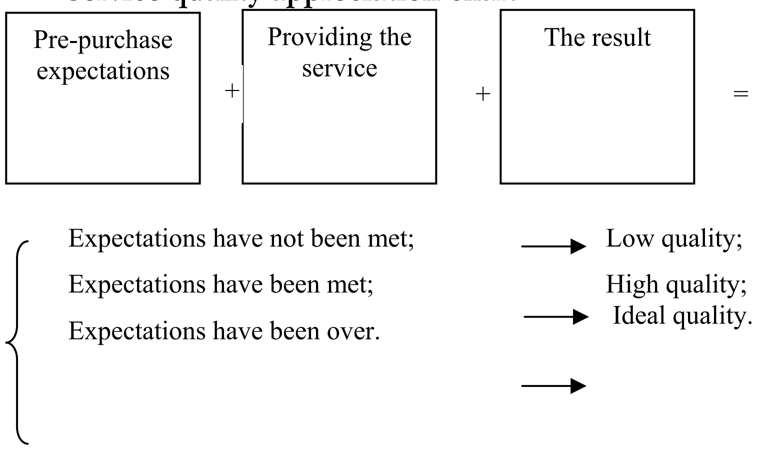
If by tourism product we mean an ensemble of physical features, chemical or any other nature, all reunited in one tangible form capable of satisfying a person's tourism need, then the need to identify and define its quality features would surely surface.

In general, as with all other products, the tourism product features present themselves as such:

- Image-related features, which give the product its means for communication with the outside, although in close binds with the products' and the firms' prestige, basically everything (good or bad) the product has accomplished in the eyes of the consumer.
- Functional characteristics which insure the products utility and value, respectively its ability to satisfy the tourism need of its consumers.

Usually the consumer appreciates the quality of a provided service comparing his or her expectations with the experience gained while the service was provided. The result can be presented like this:

Service quality appreciation chart



Source: Olteanu Valerică, Cetină Iuliana, *Services Marketing*. (Editura Expert, Bucureşti, 1994).

The quality of a tourism product, which represents the level of insured satisfaction of all tourist needs (or the concordance between customer expectations and what the producer offers them), can be appraised by means of various aspects.

From the wide range of ways to differentiate quality features in tourism products, we will present only one, which refers to separating various aspects into major groups: natural, technical, management, human, social and cultural, legal, economics, etc.

1. *Natural features* of a product are:

- Landscape beauty
- Pure air and water
- Access to local attractions (the presence or absence of natural obstacles)
- Altitude of any and all attractions
- Climate and temperature
- Season
- Flood, earthquake, avalanche, vulcanic eruption and other natural disaster rate and magnitude.

All these aspects can render a tourism product more or less appealing, increasing or decreasing the tourists' satisfaction. Excepting, maybe, water and air purity all the other aspects are well beyond the influence of tourism companies, thus registering impossible values. What is, however, left at their discretion is the way in which these aspects are highlighted and left unaffected. The more varied and attractive the landscape, the more customers will chose the destination for hiking, or seasonal activities, with fresh air and pure water comes more bearable climate, and with a lower rate of bad weather and natural disasters the better the consumer will feel, also allowing the chance for a repeatable experience and transmitting a favorable influence to his or her immediate entourage.

2. *Technical quality features* are aspects related only to overall vehicle performance, means of communication, the infrastructure of hotels, restaurants, tourist attractions and other pieces of equipment that contribute to the well-being of the basic and secondary tourism products. Of these we highlight:

- Wear and tear aspects, which are the opposite of what one understands by quality services, being closely related (the older the equipment to more used it will be). Sometimes (historical monuments) age represents a positive aspect.
- Availability and maintenance, which influence the cost and duration of services, customer comfort, tourist safety, etc.
- Lighting and signaling, which are important aspects concerning tourist transport services, lodging and even recreation.
- Noise and vibrations which unavoidably accompany tourism services, these aspects correlate with the level of comfort.
- Travelling speed (of vehicles, buses, trains, elevators, etc.) which must fall under a certain limit in order to insure the safety of the tourists, and to make sure the landscape can be properly observed, but also to make sure the voyage isn't too long and tedious.
- Receiving and production capacity of any and all equipment (lodging, transport, meal service, recreation), based on prompt or late service, avoid crowded areas and stress.
- Level of comfort during travel and the sojourn, which is ensured by other features, but also targets the vehicle class used in transport, hotel stars and restaurant category).
- City and building architecture.

Insuring these aspects implies a large number of investments, high maintenance and repair. *Management* related aspects are service-specific, and in this case fall under the following categories:

- The beginning and end of the tourism service, which must coincide with the consumers' expectations, any issue in this respect could cause the consumer to seek services elsewhere.
- The open-closed time of any resorts, these aspects must be chosen in such a manner as all clients can enjoy the provided services whenever they order them, and the company can make best use of its facilities.
- Configuring the travel circuit. The duration of a journey, the fatigue, landscape variety and attraction availability all depend on this certain aspect.
- Visiting program and recreational programs which must adhere to the customers' expectations.
- Service synchronization (information, transport, lodging, recreation) gives the tourism product its contents. Tourism product attractiveness and the

satisfaction these products offer depend whole on the companies' management solutions. That is why a qualified agent must be a good manager in order to offer high quality services to those interested.

Taking into consideration the technical and management-related aspects, now we can talk about *technical and management-related features* of tourism services, like:

- Duration of partial and integral services, which, on one hand must be perfectly balanced in order to not bore or fatigue the consumer, and on the other hand must not be too small in order to give the beneficiaries the chance to enjoy something as much as they want, this aspect being tied to the technical and management-related aspects of the equipment used as well as the skill level and management skills of the employed staff members.
- The level of security during the unfolding of the service, which depends on the level of attractiveness and price.
- The difference between the duration of the recreational part and other complementary services, the products' quality increasing along with its level, recreation being something essential in the tourists' eyes.
- Crowding, which depends on the receiving capacities of every tourism company, the level and distribution time of a request, schedule, etc.

3. Staff-related features regarding services heavily influence their quality. Under this banner we have:

- The number of available personnel, which needs to be large enough to promptly serve clients but small enough to not have any negative effects on prices.
- Structuring the staff by professions, qualification levels, service categories, age, all aspects must adhere to the structure of the consumer demands, all highlighted structural criteria must be met in order to ensure the staff can handle any and all the needs of their clients.
- Employees missing from work, when in large numbers may compromise all efforts towards ensuring proper service quality.
- Kindness, politeness and availability of every staff member, all these aspects imposing strict employee selection, formation and supervising criteria.
- The proper attire and attitude, which can satisfy or displease tourists.
- The working and lodging conditions of all tourism employees, based on the staff members' capacity to fully satisfy the expectations of their jobs, which can be higher or lower.
- The level of the paycheck, which can depend on employee motivation, availability and good character.
- Honoring the working hours, an employee missing from an assignment can cause displeasure among clients.
- The knowledge of foreign languages, which is an imposed feature when working with tourists from abroad.

Romanian companies confess to an increased level of failure, particularly because they cannot yet insure complete satisfaction of the afore-mentioned aspects.

4. *Social and cultural features* that may influence the quality of tourism services adhere to:

- The ethnic structure of the population within the tourism areas, which is in close correlation with the demands for tourism services (especially international tourism) and with the level of attractiveness of the targeted areas, all these depending on each nationalities' traditions, local tensions and existing conflicts, etc.
- The education and cultural level of the population, which can affect its character: more open to receiving tourists, communicative, tolerant, keen attention, etc.
- The number of people who speak international languages, among these there is also the level of attractiveness towards foreign tourists.
- A land rich in folklore and cultural and historic monuments, are important aspects for tourists who manifest an attraction to them.
- Hospitality and tolerance of the locals.

5. The most important *legal aspects* are as follows:

- The image of the population and regime of the targeted country.
- Political and social stability.
- Border-crossing formalities and the restrictions they impose.
- Access to public services.
- Local, regional and national authorities' attitude towards tourism.
- The law concerning tourism, heritage and licenses, etc.

Obviously, such aspects are well beyond the influence of tourism companies and in the hands of public and central powers of the said country.

6. *Economical features* of a tourism product refer to:

- Cost level and structure.
- Prices.
- The magnitude of any and all commercial networks in the area, etc.

Raising the bar when it comes to tourism products, or any other products, means high resource consumption, which leads to higher prices through which the companies ensure a profit, thus regaining their investment. Due to the fact that as long as a person maintains the "tourist" aspect, they manifest themselves as a buyer, then obviously the magnitude of the commercial network in the tourism area will constitute an attraction (a tourism product will prove to be of higher quality, the more it is accompanied by commercial services).

According to the experts at the World Tourism Organization, the main quality features of a tourism product would be:

- Validity, rendering the product usable.
- Reliability, the feature which ensures consumption in prime conditions.

- Efficiency, appraised by the relation between: effect, satisfaction and effort.
- Integrability, which is the feature that can offer a whole service range that defines contents.
- Flexibility, the ability to easily adapt to the clients demands.

All these features can be viewed as aspects upon which the level of tourism demand depends on.

Creating and providing services represents another main aspect that separates policy from product. Its features are determined by the specific way in which the services are rendered, which is why some writers would propose assimilating the processes of creation and production, under the name "servuction". In the opinion of some reputable French researchers, this system is based on the interaction of three elements:

- Phisics
- Personnel
- Processing and customers

As we can see, the central element is the internal organization, which ensures the combination of all the elements necessary to provide a certain service. When forming the product policy, the company will have to consider the components and the relations between them in such a way as to ensure the satisfaction of even the highest demands.

Product strategies are composed of three known aspects: quality, innovation and diversity, all of these with adequate variables. The basic element is determined by the dominant position of the profit strategies, service quality being also a key element. Improving service quality is a difficult thing to manage. This means that the company must fulfill its promises and provide higher than average services at all times. A special contribution to improving a service's levels of quality would be projecting the service as a single system, because one such system cannot perform at high quality if its components do not operate at the same efficiency. In some cases, it's the small details that escape even the keenest marketers' line of sight. Thusly, a poorly lit hotel will discourage its customers to perform any nocturnal activities that would require stronger lighting. Another method that ensures high quality services is earning and keeping customer and employee loyalty. Consumers usually don't separate service quality from the honesty and trust that a service provider might offer.

6. Conclussion

In the last two decades, society has witnessed a series of change regarding consumer behavior. Heading towards a healthier lifestyle, heightened attention towards environmental issues and the continued interest for quality services are but a few to name the least in modern society. Research shows that these aspects influence consumers when they are looking to pick a holiday destination. These days tourists, known as "new tourists", care a great deal for what they can obtain from holidays, especially the uniqueness of it all. Tourist motivation is a complex subject that falls onto the hands of psychology in order to explain the process behind an individual making a decision as well as their behavior before and after the holiday. Their motivation reflect their inner desires and that's what pushes them to find in holidays the experiences that will yield satisfaction.

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ASSETS AND PROPERTY MANAGEMENT

Andreea-Lorena Codreanu[1]

Abstract

Patrimony management is an area in witch the intern legislative elements combine more and more often with extraneity elements. In marital relations, successional procedure, property management and also in safeguards granted to persons who complete acts in order to protect patrimony, there are often aspects of Private International Law. The conflict of laws brings into disscution the issue of the applicable Law. Prohibition on alienation is also provided for better protection of the movable and immovable property in their possession (whether major or minor persons). The entry into force of the new Civil Code brought into discussion problems that need both terminological and practical clarifications. Some institutions were enacted, with the necessary tools to reconsider their way of implementation. Thus because do not have litigiousness and can be solved amicably, property management issues present a particular interest for civil persons and businesses.

Keywords: property management, assets management, Romanian Civil Code

JEL Classification: K20, K30

Aspects of patrimony management, whether movable or immovable assets, located in the country or abroad, are found in European Legislation in many areas, such as inheritance matters, matrimonial system, property management, acquisition and alienation of property, patrimonial relations between spouse. Increasingly often, marriages are between people with different nationalities, the legal status receiving thus a foreign element and subduing the matrimonial system to conflict of laws. If there is a matrimonial advantage which has no effect, than if the status is revoked or one of the spouse dies, such an advantage is literarly revoked through divorce' procedure. The new Romanian Civil Code institutes *the engagement* and this can be proved by any probation and doesn't require marriage. If the engagement is broken, are subjected to refund, in kind or in equivalent, the gifts the fiancés received for marriage. The death of one of the fiancés cancels the refund duty.

It should be also mentioned that in Romania are allowed three types of matrimonial regimes – without possibility of their combination: regime of *legal community* (presumed valid if spouses do not choose another regime), the regime of *conventional community* and the regime of *separation of assets*, and also the possibility of changing the regime or the partition between spouses, during the marriage. Thus we may observe how the legislative flexibility leads to increased methods of administration the belongings possessed by a person, especially that, within the same patrimony, at present may be distinguished the patrimonial masses - personal and professional.

In Switzerland, if one or both of the fiancés residing in this country, the marriage completed abroad is recognized. The French sample of the rules concerning the mandate, is an open-minded one, regarding the way we look to our life, wealth,

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[1] Romanian National Union of Public Notaries

business order, reasoning through which we can make more efficient even the way in which our legally or testamentary legatees manage more over the inherited assets.

The French law of 5 March 2007, in force since the first of January 2009, had as main objective respecting of the person's will in protecting private life and its patrimony. The idea of future protection mandate is an original one through the fact that person can voluntarily protect its assets but also himself as mandator. This legal form allows the possibility to predict the effect of any incapacity, known or not in advance and of a dependency management that might confront the person. The contract is a bare contract but French law allows the establishment of remuneration, which shall be paid only with effect from the date effective exertion of the mandate and not the date of the completion. Remuneration may be in the form of reimbursement of expenses necessary to carry out the mandate, or an annual or monthly allowances, set freely by the mandator.

The mandate for itself is the one through which the mandator may authorize one or more agents to represent him when its mental or physical faculties are deteriorated. *The mandate in other's interest* foresees as mandators the parents that mandate a person to handle a sick or disabled child, for the period or from the moment they would not be able to do so. Because of the importance of such decisions, the agent's obligations and procedures of verification of its actions will depend on the form chosen for the completeness of the mandate.

Future protection mandate will involve three parties, two binding – mandator and mandatary and an optional part of a third party "trusted" to verify the mandatary.

In the case of classic mandate, in order the mandator to be able to dispose through this particular legal form, it must be a major person or an "emancipated" minor (who is not under ward and he is under guardianship, is mandatary assisting by the trustee). *The mandate in other's interest,* requires that parents – mandators should not be under guardianship or trusteeship. There is also a difference concerning the child: when the latter is minor, the parents must have parental authority, and in the case of senior child they must assume material and effective obligations.

Regarding the contractual obligations of the mandatary, is required to distinguish between person protection and property protection. Concerning the mandator's ***person,*** the mandatary provides protection as a tutor or trustee. Under the contract, the mandator may express preferences about sustenance, social life, personal life, about physical or moral integrity or the suitable respect in case of illness.

As regard to *assets*, if the mandate wears *authentic form*, the mandatary could perform acts of conservation, management disposal (only onerous)[2]. Are imposed questions concerning other possible legal operations, such as if the agent could give up at the action in reduction on behalf of mandator, if they could change the life insurance, bank accounts or if he could dispose of his mandator residence if the later

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[2] *In case of disposal acts with bare title the mandatary will be required to obtain the consent of the guardianship judge.*

couldn't move or seriously ill and the distance wouldn't allow the mandatary to ensure the conditions of care. In this type of contract we are talking about a volunteer right for future protection, the mandator may define how the way of controlling the running mandate, this taking place by empowering a third person. The act may provide *a plurality of mandataries*, indicating that there is preferable the choice of them having different skills (for avoiding conflict), and their designation by category of assets (movable, unmovable, financial transactions). The mandator may designate *successive mandataries*, if the first designated agent becomes unable, waive the mandate or dies.

Future protection mandate is a form of mandate which may be completed if only the mandator demonstrates its unfitness to manage the assets and interests by himself through a medical certificate issued by a doctor on a special list established by the Prosecutor of the country (in France). The role of trusteeship judge becomes important when we need the completion of the mandate of future protection with another measure in the same direction. Judge's intervention covers thus any possible lack of protection, generally related to the evolution of physical estate, health, of the mandator. If decided the estate has altered, the guardianship or trusteeship would be establish. Principled, the measure taken by the judge makes the future protection mandate to end, but the two legal forms of protection can coexist.

In both legislations, French and Romanian, the minor who attained the age of fourteen signs the legal acts with the prior consent of the trustee or the custodian. The minor can not make even with consent, donations or to ensure other obligation. Rules on guardianship the minor who has not reached the age of fourteen also applies to the case one put under interdiction, to the extent that the law stipulates otherwise. Marriage between minors under the guardianship and their tutor is prohibited.

In the Romanian Civil Code into force since 1st of October 2011, are provided rules regarding the protection of private natural person, given below: article 104 – when taking a measure of protection should be taking into account private individual possibility to exercise its rights and to fulfill their obligations on the person and his assets; article 105 – are subject to special measures for protection, minors and those who, though able. Because of old age, illnesses or other reasons stipulated by law, can't manage their assets and defend their interests in appropriate conditions; art. 106 – protection measures: the child protection through parents, establishing guardianship, entry into foster care, social protection measures provided by law; protection of major: by placing under judicial interdiction or the establishment of trusteeship; art. 107 – guardianship and family court solves problems concerning person protection through guardianship and trusteeship; art. 108 – through trusteeship: by tutor, appointed and named, and the family council, as consultative body.

Article 114 from the new Civil Code provides that the parent may appoint a trustee by an unilateral act or mandate, in authentic form, or (testament, provided that the parent may not have been deprived of parental rights at the date of the act or death); At the appointment or during the guardianship, the court may decide *ex officio* or at the request of the family council as the trustee to give real or personal guarantees, when the interests of the minor requires such an action. The trusted third party of French legislation can be equated (in the sense of similarity) in the Romanian one by the „family council". Guardianship is exercised in the minor interest regarding *the person and the assets.*

Trusteeship may be instituted in special cases: if due to old age, illnesses or physical infirmity, a person, although capable, can't personally manage their assets or to defend their interests, and for good reasons can't appoint a representative or an administrator.

Legal incapacities to dispose of, may be set in consideration of the person *(intuitu personae)* or instituted in consideration of the nature, destination or special legal situation of some assets *(intuitu rei)*. The two categories have the same finality, namely total or partial prohibition of alienation. Inabilities to sell are limitations of the ability of use and exercise – interdictions of receiving and disposing through legal acts, of any assets. They are also measure of protection or with penalty character, *intuitu personae*, who refer to the unable persons (total or partial) to conclude acts which dispose or acquire. Civil incapacities end by the repeal of the prohibited rule or by ending the causes which determined and their disrespect attracts the absolute or relatively nullity. The incapacity is related to an asset or right which can not be alienated through living; it also differs to the *legal unavailability*, the latter being a measure of suspension of a disposition right over some assets.

Inalienability constitutes the impossibility to conclude legal documents with goods declared legally inalienable, as object. They are *intuitu rei,* referring to the nature or to the destination of assets, or to its legal situation (the litigious one), equivalent to the removing the asset from its civil circuit, are restrictions of the civilian circuit of assets. The penalty is always absolute, it ends when the asset is returned to civil circuit, by repealing statutory interdiction or the by fulfillment of the term which has been introduced for.

An interesting and important domain in matter of attainment is constituted by the regime of the *Law No. 312/2005, regarding the attainment of private property right over lands by foreign citizens or stateless, and also by foreign judicial persons*, which, by its disposals, imposes the explanation of some terms – specified for that matter in the actual Civil Code. And so, the notion of *secondary residence* can be found in art.88 from the Code – *the residence of civil person is in the place where one has its secondary dwelling.* In addition, in the matter of private international law, it is disposed, through art.2570, the following: "(…) the habitual residence of the civil person is in the state in which the person has his dwelling or his principal settlement, though he didn't fulfill the legal formalities of registration. The residence of a civil person *acting in the exercise of his professional activity* is the place where this person has his principal establishment. In order to determine the *principal dwelling* there will be taken into consideration those personal and professional circumstances which indicate lasting bundles with the respective state or the intention of establishing such bundles (…) The proof of common (habitual) residence may be done by any means of probation." There is to be mentioned the fact that "the proof of the residence may be done with the identity document and when those respective mentions are missing or don't correspond with reality, the factual situation of residency in another place can't be opposed to other persons; the exception is given by the circumstance in which residence was known through other ways, by the one whose is opposed to" (art.87 from the Code). Similar aspects we meet in situation of the minor person. Thus his residence is at his parents or at that parent where he constantly lives (art.92 Civil Code). The minor under guardianship has his domicile at the trustee; only with the guardianship instance authorization the minor may have a *residence*. (art.137 Civil Code). Also, the claims which the guardianship or one of the members of family council, the spouse, a straight relative or brothers or sisters of these have over the minor, may be voluntary paid only with the authorization of the guardianship instance (art.140, alin.4).

All these remarks were considered necessary, since the aspects above influence the judicial mode through which the foreign citizens may achieve lands in Romania according to the stipulations of the Law 312/2005. The fourth article of the Law disposes that "the citizen of a member state non – resident in Romania, stateless non – resident in Romania with domicile in a member state, as well as the judicial non – resident person, constituted according to a member state legislation, may acquire property right over lands for *secondary residence, respectively secondary headquarters,* at 5 years from the date of Romania's accession to European Union. Having into consideration that the term specified in the text above has been accomplished at the 1st of January 2012, must be retained the importance of abidance the scope for which the mentioned citizens categories may acquire lands. ("a person can't have in a specific moment only one secondary residence, even when he posses more then one dwelling" – art.86 Civil Code). Therefore, they may be acquired more lands however only one may be used at a specific moment in order to establish the secondary residence. The exception is for the agricultural and forest lands, because their regime of acquisition is submitted to some special and different conditions.

Regarding the legal person, the Civil Code stipulates that they are of Romanian nationality all the legal persons of whose headquarter, according to the constitution act or statute, is established in Romania (art.225). The legal person must have a stand – alone organization and a proper patrimony, affected to achieve a certain lawful and moral purpose, in accordance with the general interest (art.187 Civil Code). Also, it has the possibility to posses more than one secondary headquarters for branches, regional offices and workstations, together with their lands, remaining applicable the disposals of the art.97 from the Code, regarding the chosen domicile. Concerning the applicability of the private international law's rules, the Civil Code established that "the legal person has the nationality of the state where, according to the Constitution act, established his headquarter. If there are headquarters in more than one state, decisive in identifying the legal person's nationality is the real headquarter(…)". The organic statute of the legal person is governed by its national law, the organic statute of the branch set up by the legal person in another country is governed by the national law of that country and the organic statute of the subsidiary is governed by the law of the state where he established his own headquarter, independently of the law applicable to the legal person who founded it (art.2580). In addition, art.2583 stipulates that "the foreign legal person recognized in Romania unfolds its activity on the country's territory in the conditions established by the Romanian law regarding the course of economics, social, cultural and of other nature activities."

With reference to the acquisition of land by non-resident legal person (who is not registered in Romania), formed under the law of a Member State, according to Article 4 of Law nr.312/2005, it may acquire ownership over land for secondary headquarters, at the end of a period of five years from the date of Romania's accession to the European Union, accomplished, as mentioned above, on 1 January 2012. Situation of legal person belonging to third states is provided in Article 6 of the Act, in that it may acquire ownership of land in the conditions regulated under international treaties, based on reciprocity between states. Romanian internal law provides that the common residence of judicial person is in the State where it has its principal establishment, meaning the place where it is set the central administration.

Interesting aspects brings into forefront the *Ordinance nr.44/2008 on the economic activities by authorized individuals, individual companies and family businesses*. Article 3 of the *Ordinance* provides that, under the right to free enterprise, the right to freedom of association and the right of establishment, any person, a Romanian citizen or a citizen of another member state of the European Union or the European Economic Area may carry out economic activities in Romania, as provided by law; the economic activities can be carried out in all fields, trades, occupations or professions that the law does not expressly prohibit for the free initiative. Individuals referred to in Article 3 may conduct economic activities individually and independently as: civil-authorized persons, as entrepreneurs, holder of an individual enterprise or as members of a family business (Article 4). According to Article 2 of the *Ordinance*, an entrepreneur may be the person that organize an economic enterprise, defined as an economic activity which unfolds in organized way, permanently and systematic, combining financial resources, the attracted labor force, materials, logistics resources and information, on the entrepreneur risk in cases and under the conditions provided by law. Also, the right of establishment is the prerogative of a citizen of a Member State of the European Union or the European Economic Area to conduct economic activity in another Member State through a permanent establishment under conditions of equality of treatment with citizens of the host State. The Ordinance 44/2008 requires the obligation that the authorized physical person to have professional office in Romania and that the economic activities through a permanent establishment by citizens of other Member States of the European Union or the European Economic Area is done in compliance with regulations the permanent establishment.

Returning to Law no.312/2005, agricultural land acquisition takes place thus: "the citizen of a Member State, stateless persons domiciled in a Member State or in Romania and legal entity formed under the laws of a Member State may acquire the ownership right over agricultural lands, forests and forestry land at the accomplish of a period of 7 years from the date of Romania's accession to the European Union ". The Acquisition of such lands is therefore possible since 1 January 2014.

Final mark:

In case of disposal through mandate contract, concerning the legal effects, they may be limited by the mandator will, only to the person's protection or to the assets' protection. The mandatary and the tutor (or trustee) exercise their duties in an independent but complementary manner, with no liability to each other, except the common obligation to notify each individual decisions. This brings the novelty on this type of mandate because it allows a person when she is still capable to provide or to determine how it will be organized in the future its protection or of the protection of its patrimony[3]. Regarding the acquisition of immobile-land from Romanian territory, from the interpretation of constitutional norm according to which "the constituent treaties of the European Union and also the other binding community rules take precedence over the contrary stipulations of the national laws, in compliance with the act of accession "(Article 148 paragraph 2 of the Romania's Constitution) results that concrete application of the law nr.312/2005 requires reporting the term of *resident* to the meaning given by the Treaty of Romania accession to the European Union, namely that the right of residence in any of the three ways to exercise, assume the presence of the foreign citizen or stateless in Romania, in legal way. Hence the concern of the institutions and authorities responsible for applying the provisions of this Act, for their correct interpretation in the spirit of the Constitution.

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The Ordinance No. 44/2008

3 *In Quebec the mandate for incapacity is applied since 1990.*

THE CONVERGENCE OF THE BUSINESS CYCLES IN THE EURO AREA

Andrei Rădulescu[1]

Abstract

The Euro Area is confronted with the persistence of the sovereign debt crisis. The financial markets have frequently tested the resistance of the Euro Area, as the countries from the Southern part of the region face a tough macroeconomic adjustment process.

The economic divergence is one of the factors that determined the current situation in the European Monetary Union. This divergence (nominal and real) was paid little attention by the financial markets and economists during the last years of the Great Moderation. However, the attitude changed when the Great Recession hit the region.

This paper treats the behaviour of the business cycles of the Euro Area (12) member countries during the period 1996-2011. The convergence of the business cycles of the member countries of a currency union is one of the important criteria mentioned by the literature on Optimal Currency Areas. According to the results, the business cycles of the Euro Area (12) countries converged before the launch of the euro (1999) and diverged after 2004. The divergence intensified in the context of the global crisis.

Keywords: business cycles, European Monetary Union, Cobb-Douglas, Optimal Currency Areas

JEL Classification: C22, E32, F02

1. Introduction

The literature on Optimal Currency Areas mentions the convergence of the business cycles of the member countries of a monetary union as a fundamental issue. By joining a currency union the countries give up the independence of the monetary policy and of the foreign exchange policy, important adjustment instruments when the economies are confronted with economic shocks. Hence, the importance of the business cycles convergence within the monetary union: this determines a better economic synchronization, which leads to a more efficient transmission of the monetary policy established by the central bank of the Monetary Union. This, in turn, reduces the probability of occurrence of the asymmetric shocks.

[1] Post-doctorand, Romanian Academy; Senior Investment Analyst, SSIF Broker; E-mail: andrei.radulescu@ssifbroker.ro; Tel: 0040 730 727 516

Before the launch of the euro (January 1999) the European countries passed through a process of nominal convergence, according to the criteria established by the Treaty of Maastricht. However, the nominal convergence process did not lead to a sustainable real economic convergence (the spirit of the Treaty). In other words, the letter of the Treaty was respected by the European countries in order to qualify for the Euro project.

In fact, after 1999 there can be noticed a nominal divergence process across Europe, if we take into account the evolution of the inflation rates, but also of the budget deficits. This nominal divergence is an important factor contributing to the real divergence across Europe, which intensified after the launch of the Great Recession. At the same time, the lack of credible mechanisms for financial stability and macroeconomic policies coordination across Europe determined the accumulation of macroeconomic disequilibria, which proved dramatic for some member countries during the Great Recession.

The rest of the paper has the following structure: chapter 2 presents the most important aspects regarding the convergence of the business cycles in a monetary union, as mentioned by the literature on Optimal Currency Areas; chapter 3 describes the econometric methodology employed in order to analyse the convergence of the business cycles in the Euro Area (12); the last chapter present the empirical results and the conclusions.

2. On business cycles convergence in a currency union

By participating to a currency union a country gives up the independence of the monetary policy and of the foreign exchange policy, important instruments used in the adjustment processes in the context of the economic shocks (either symmetric or asymmetric). For instance, in the case of the Euro Area, the central bank establishes the monetary policy taking into account the aggregate macroeconomic climate (at the region level), not the situation of a single state. In other words, the monetary policy decisions might present adverse effects for the small economies of the monetary union confronted with a different economic climate (compared with the region climate).

The convergence of the business cycles in a monetary union is one of the fundamental criteria mentioned by the Optimal Currency Area theory. The importance of this criterion is obvious. The convergence of the business cycles of the member states contributes to a better economic synchronization. In other words, the business cycles convergence determines a more efficient transmission of the monetary policy established by the central bank of the Monetary Union.

The literature distinguishes between the concept of ***specialisation*** [Krugman (1993)] and the concept of ***endogeneity*** [Frankel and Rose (1998)].

In the paper "***Lessons of Massachusetts for EMU***" Krugman proves that an increasing economic integration within a currency union leads to the industrial specialisation of its regions. In other words, the probability of occurrence of asymmetric shocks is increasing. The Nobel Prize takes the example of New England from the United States, where the industrial specialisation determined the instability of exports, pro-cyclical capital flows and a real economic divergence. Consequently, Krugman concluded at the beginning of the 1990s that the process of economic and monetary integration in Europe risked leading to the specialisation of the member countries, according to the comparative advantages. In fact, Krugman signalled that after the launch of the euro several countries would turn vulnerable to the demand shocks.

The paper of Kalemli-Ozcan et al (2001) proves that the financial integration leads to the intensification of the industrial specialisation. The concept of specialisation is also mentioned by Frankel (1999): a higher degree of economic integration leads to a lower economic diversification, which in turn contributes to the increase of the probability of occurrence of the asymmetric shocks.

On the other hand, according to the ***endogeneity*** criterion, the economic and monetary integration determines a higher economic synchronisation of the member countries. A common currency can be perceived as a long-term commitment. Consequently, the monetary union has positive effects for the investment flows across the member countries, leading to the consolidation of monetary integration, through several mechanisms: the ***spill-over*** of the productivity shocks, the macroeconomic discipline.

Frankel and Rose (1998) consider that the increasing economic integration determines a higher convergence of the member countries of a currency union. In other words, a currency union might become optimal in time (ex post), even though it was not optimal at the beginning (ex ante). In the case of Europe, the introduction of the euro might contribute, per se, to a higher integration of the member countries, and a convergence of these economies.

3. Description of the Methodology

In order to analyse the convergence of the business cycles in the Euro Area (12) I estimated the cyclical component of the GDP during the period 1996-2011. The cyclical component of the GDP was determined by difference between the GDP (%, y/y) and the potential GDP (%, y/y). Afterwards, I employed the standard deviation, the classic indicator used to measure the convergence / divergence. I used the data from the Eurostat for the GDP (%, y/y) for the period 1995-2011.

In order to estimate the potential GDP I started from the Cobb-Douglas production function:

$$\mathbf{Yt = \alpha \times Lt + (1 - \alpha) \times Kt + Ut} \qquad (2.1),$$

where Yt, Lt, Kt and Ut represent the evolution of the GDP (y/y), the evolution of the labour input (y/y), the evolution of the capital stock (y/y) and the total factor productivity.

In order to get the potential GDP I estimated the structural components (the trend) for the labour input and for the total factor productivity, by applying the Hodrick-Prescott filter (shortly described in the following lines). Mathematically, the potential GDP can be expressed in the following form:

$$\mathbf{Yt^* = \alpha \times Lt^* + (1 - \alpha) \times Kt + Ut^*} \qquad (2.2),$$

where Yt*, Lt* and Ut* represent the trend component of the GDP, labour input and total factor productivity.

For the labour input I considered the labour force, the participation rate, the unemployment rate and the number of working hours:

L = labour force * participation rate * (1-unemployment rate) * number of working hours (2.3).

In what regards the capital stock, I applied the perpetuity method:

$$\mathbf{Kt = Kt\text{-}1 \times (1\text{-}d) + FBCFt} \qquad (2.4),$$

where Kt represents the capital stock (year t), d represents the depreciation ratio and FBCFt represents the gross fixed capital formation. I started from the capital stock of 1995, as estimated in the paper of Derbyshire et al. (2011) and a depreciation ratio of 10%.

For the GDP, the components of the labour input and gross fixed capital formation I used the annual data from Eurostat for the period 1995-2011.

I estimated the total factor productivity by applying the Hodrick-Prescott filter for the Ut series,

$$\mathbf{Ut = Yt - \alpha \times Lt - (1 - \alpha) \times Kt} \qquad (2.5)$$

I considered a value of 0.65 for the parameter α, as employed by the European Commission (the paper of D'Auria et al. (2010)).

The Hodrick-Prescott filter

This methodology distinguishes between a cyclical component and a trend component of a macroeconomic variable (Yt = Yt* + Ytc). The cyclical component of the indicator is obtained according to the following mathematical relation:

$$\text{Min} \sum_{t=1}^{T} (Y_t - Y_t^*)^2 + \lambda \sum_{t=2}^{T-1} ((Y_{t+1}^* - Y_t^*) - (Y_t^* - Y_{t-1}^*))^2 \qquad (2.6)$$

where Yt represents the macroeconomic variable, Yt* represents the trend of this variable, λ is a measure of smoothness, so that the lower the value of this parameter, the closer the trend follows the variable.

In the extreme case when $\lambda = 0$, then the trend would equal the actual variable. Hodrick-Prescott suggests a value of 1600 when working with quarterly data and 100 for annual data. However, some other contributions in the literature suggest the use of other values for λ.

After estimating the cyclical component of the GDP for the member states of the Euro Area (12) and of the currency union I computed the standard deviation (σ), according to the formula:

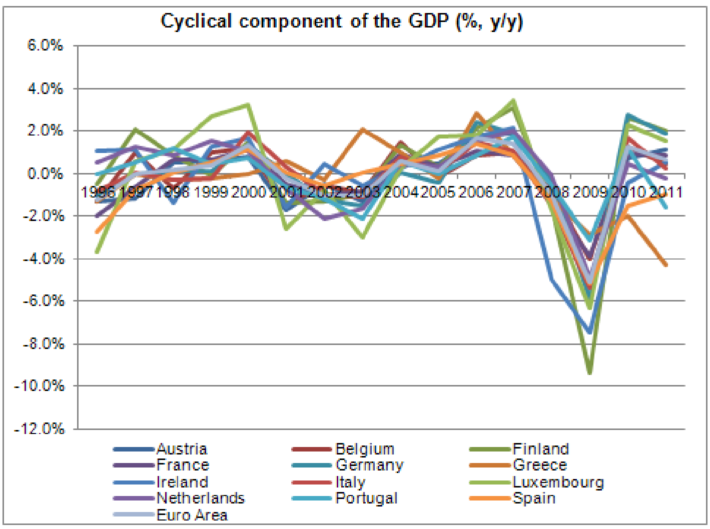
$$\sigma^2 = \frac{\sum (x_i - \bar{x})^2 \cdot n_i}{\sum n_i} \qquad (2.7)$$

where xi represents the cyclical component of the GDP for the country i and $\bar{x}$ represents the cyclical component of the GDP of the Euro Area.

4. Empirical results

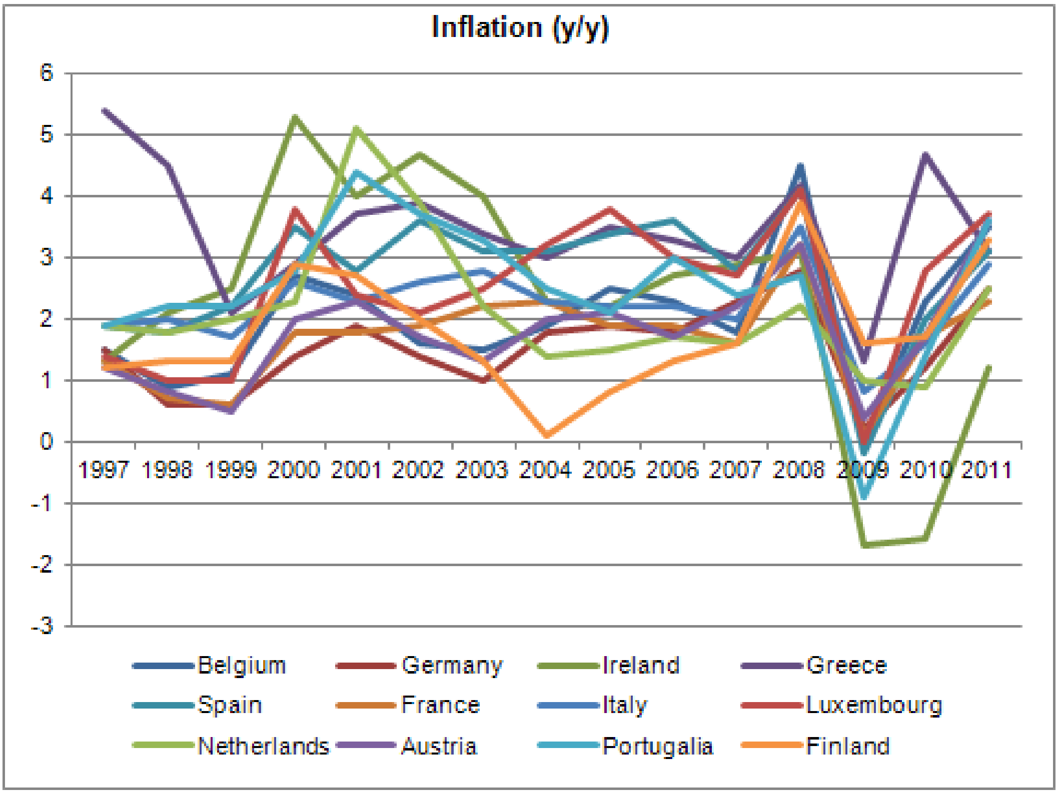
The figures 4.1 and 4.2 present the evolution of the cyclical components of the GDP (for the member countries of the Euro Area (12)) and the standard deviation (for this component).

Figure 4.1. The cyclical component of the GDP for the countries of the Euro Area (12)



Source: Own estimates, according to the econometric methodology (Chapter 3)

Figure 4.2. The standard deviation for the cyclical component of the GDP for the countries of the Euro Area (12)

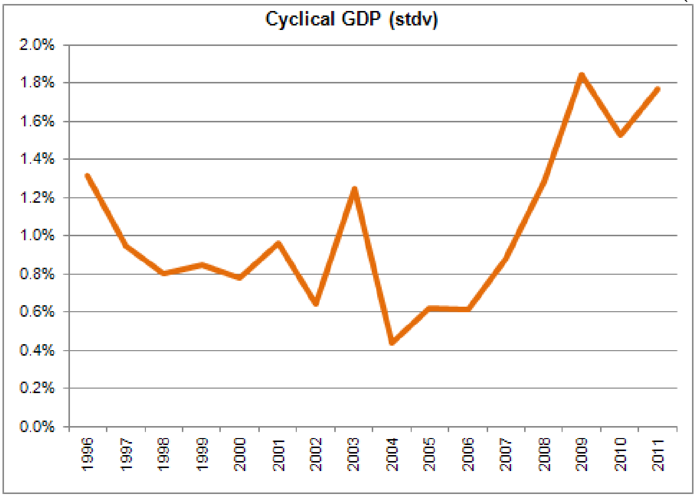


Source: Own estimates, according to the econometric methodology (Chapter 3)

There can be noticed a decline of the standard deviation computed for the cyclical component of the GDP for the member countries of the Euro Area (12) during the period 1996-1999. In other words, the business cycles of the European countries converged before the launch of the euro. This convergence can be explained by the measures implemented by the governments in order to attain the Maastricht criteria in order to qualify for the monetary union project.

On the one hand, the inflation rates declined across the European countries during the 1990s (as can be seen in the figure 4.3). This evolution was supported by several factors: the central banks turned independent from the political power (as established by the Treaty); the import of credibility from Bundesbank (in terms of the price stability track record); the confidence in the project of the common currency. The convergence of the inflation contributed to the convergence of the long-term interest rates across Europe.

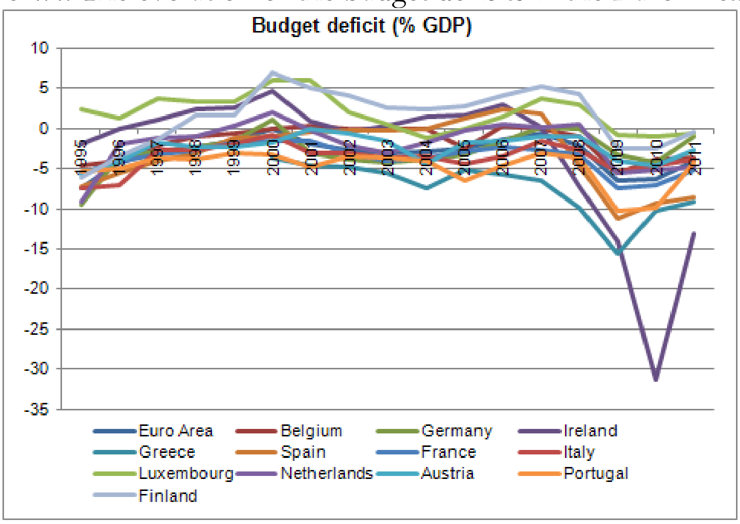
Figure 4.3. The evolution of the inflation rates in the Euro Area (12)



Source: Eurostat

On the other hand, the European governments adopted and implemented several measures in order to adjust the public finances (the fiscal consolidation process) and respect the Maastricht rules. Consequently, there can be noticed a trend of budgetary consolidation after the signature of the Treaty until the launch of the euro (the figure 4.4). This budgetary consolidation process was supported by the favourable macroeconomic climate (above potential growth, due to the technologic revolution).

Figure 4.4. The evolution of the budget deficits in the Euro Area (12)



Source: Eurostat

However, the convergence of the business cycles across the Euro Area (12) was not sustainable, as after the launch of the euro there can be noticed important fluctuations and an upward trend (after 2004) of the standard deviation (the indicator used in order to measure the convergence of the business cycles).

In other words, after 2004 there is obvious the divergence of the business cycles across the euro area. This divergence process intensified after the launch of the Great Recession, as can be noticed on the graph (4.2).

The divergence of the business cycles after the launch of the euro can be fundamentally justified by several factors: on the one hand, after the introduction of the euro the states did not have the same incentives to respect the Maastricht criteria (several countries violated the rules of the Stability and Growth Pact during the first half of the 2000s); at the same time, the common monetary policy and the persistence of the inflation differential determined a divergence of the real interest rates; the intensification of the divergence after the launch of the Great Recession might have been determined by the different reactions of the European economies to the global liquidity crisis.

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