ROMANIAN ECONOMIC AND BUSINESS REVIEW

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

SUMMER VOLUME 1 NUMBER 2

ROMANIAN ECONOMIC AND BUSINESS REVIEW

SUMMER 2006 VOLUME 1 NUMBER 2

PRO UNIVERSITARIA
BUCUREŞTI 2006

ISSN 1842-2497

Printed by Editura Pro Universitaria

ROMANIAN ECONOMIC AND BUSINESS REVIEW

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SUMMER VOLUME 1 NUMBER 2

PRESENT-DAY FINANCIAL STATEMENT AND THE FOUNDATION OF ECONOMIC DECISIONS

Victor Munteanu[*]

Nowadays we face a world-scale movement towards the privatization of public enterprise and liberalization of commerce, world-wide investments and monetary policies at a global level. These factors have progressively led to a substantial growth of commerce and international investments. The progress that has been achieved in information technology has determined the availability of financial and non-financial information in different parts of the world, using various means of communicating it (online, on magnetic medium or through publication in various already-sanctioned versions).[1]

The availability and communication of information world-wide between organizations that unfold their activity in different countries, are vital to the efficiency of the global market. In order to be able to invest in a direct or indirect manner, so that they should integrate on the global market of goods and services, these companies must have access to and process the financial information of their partners in view of making accurate substantiated decisions, under the circumstances in which the responsibility for the organization and management of accounting goes to the manager or to some other person whose obligation is that of managing the respective unit.[2]

1. Information in accounting at the beginning of the XXI[st] century

The professional accountant, within the process of constructing the information in accounting needs to harmonize a variety of interests, more often than not divergent, connected with its use: the interest of the manager (connected with the image of the company on the market, his own image and, last but not least, making long-term decisions), his own interest (which is limited more to professional prestige) and the "general" interest, represented by all the other users of the information in accounting (investors, employees, the State, the public etc.).[3]

However, this desideratum cannot be achieved without making reference to a prescriptive frame, seen as a set of rules, principles, methods and techniques, to which the accountant's own judgments of value get to be added, as well as results from his professional experience, his ethical values and not ultimately those he has gained out of his contact with the specialized world. All these lead to the same undeniable truth: the connection between economic activities and the factors of decision is ensured by accounting, an essential component of the informational-economic system – and its product, respectively information in accounting, obtained under the circumstances of having observed the principle of the accurate image.

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[1] Iqbal (2002, p. 244-245).

[2] Ristea (2003, p. 10-11).

[3] Ionaşcu (2003, p. 169-172).

The diffusion of a piece of information must be accomplished before it loses its capacity to influence decision. The acceleration of global diffusion of information modifies the experiences of investors. Chain operators will no longer be pleased with obsolete data, they will be looking for the most recent information. The companies that are able to offer this information will hold an advantage, because they will reduce risk. The issue is that of being aware of the impact that an instantaneous piece of information has on the stock exchange rates, on statements to the press, on the reports of the analysts.

The financial statement – the most representative synthesis of information in accounting

As far as information in accounting is concerned, the most representative is and will remain the **financial statement**. The main objective[1] of this statement is that of providing a structured representation of financial positioning, performances and treasury flows of a company. Financial statements have the purpose of showing the results of the management achieved by the managing team of the company, including the way in which its members have used the resources that have been entrusted to them.[2]

The manner of presentation of this information, as well as of the general data referring to the company and its relations with the personnel and third parties may be brought to their knowledge via books, video tapes, CDs, and not ultimately through the internet. Thus, information of any kind referring to the respective organization serves as data base in the elaboration of forecasts and in decision-making from the part of the users.[3]

Among all the methods of publication of the above-mentioned data, the most present-day are the company data bases reproduced on website pages, with the necessary precautions for confidentiality and security.

Information technology and the regulating frame have a temporary influence on the profession of accounting. Technology is the most important factor. Not only does it develop the respective techniques, they have as effect the reduction of time and distance. In this sense, globalization is an outcome of the technologies of communication. The evolution of the regulating frame is no less significant. In the most developed countries, the market of traditional products (the elaboration of accounts and the audits of accounting-financial information oriented towards the past) has narrowed down under the circumstances in which the demand for new forms of control and insurance has developed in an increasingly complex legislative context.

The rapidity of information changes and their implementation lies heavily on the profession of accounting. This entails a need for specialization and the multi-service becomes more and more prominent. Along with business globalization, these changes entail fusions of cabinets, issues regarding their identity as accounting forms and the elaboration of world-scale professional standards.

It goes without saying, the profession of accounting has to cope with the defiances provoked by external factors.

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[1] Pop (2002, p. 85).
[2] Feleagă, Malciu (2002, p. 61).
[3] Holt and Hein (2001, p. 10.2-10.3).

The impact of technology and communication on financial statement

The number of companies that have a World-Wide Web site is increasing. This evolution entails questions regarding the best means of informing the markets of the financial situation of a company. The competition between paper and the web most probably leads to the prominence of the second.

The 1999 report of IASB concerning Business Reporting on the Internet highlights the rapid growth of electronic financial information in parallel with the development of documentary research on the Internet.

Technology has dramatically "modified" not only the psychology of corporations, but also their traditional boundaries. Paper has been supplemented and, in the case of many users, replaced with electronic financial reports, obtained via Internet. And, while the normalization accountants display a tendency towards the preservation of the traditional format of financial statements, as well as of supplementary information, investors and other users have left this stage behind.[1]

The IASB vote has granted its approval to obtaining the accounting-financial information not only via traditional means, but also via modern and rapid methods offered by electronic technique. In this way the users working online will search for the information themselves. The Internet will change not only the way in which information is distributed, but also its content in order to adapt better to their needs. Anyway, one needs to mention the fact that, while national accounting regulations are obligatory, International Accounting Standards represent prescriptive instruments.[2]

4. The presentation of financial statements via web pages

The financial statements of the majority of organizations quoted at the stock exchange may be obtained starting from the allocated website. Nevertheless, the reader will seldom be satisfied with the result: statements are very long, charts are wider than the screen, complementary information appears with different usages. The exploitation of these statements might be improved through new computer science instruments: hyper-lines, key-words, regular calculations programs etc. These functions may improve the exploration of data and this without necessitating a major change of accounting regulations. However, the objective will not be attained without giving up the fixed character of formats and without the use of techniques that are familiar to the users of the Internet.

The publication of financial statements on the web does not challenge the prescriptive and methodological frame of accounting. In many countries, the registration of these documents in the commerce book or at the administration may be done electronically.

There is no difference between a statement on paper and its electronic version. The responsibility of the auditor does not change. It is quite often that the annual statement reproduced on the website constitutes a copy of the version on paper in electronic format

[1] IASB (1999, p. 4-5)

[2] Horomnea (2004, p. 392-393).

(often a fixed format of the PDF type – Portable Document Format). This file may be consulted directly or printed on paper.

Whenever a company presents an electronic version of its annual statement using computer science instruments that realize an easy connection (for instance, through HTML or XML languages) the problem of conformity with the version on paper arises. Sometimes, the presentation of data is adapted to the necessities of reading on the screen, but this one has obvious risks. We are confronted here with *three major problems*:

1. a risk of modifying the information;
2. the difficulty of identifying the audited information;
3. the gradual passage from the audited information to the unaudited one.

How can we make sure that these pages present the same figures as the official printed version? The risk of modification is inherent to the flexibility of mass-media means of communication. The data might be modified after the auditor certifies it, as well as when the information is transferred to the website. Here the problem regarding the difference between the certified information and the uncertified one appears. On the version on paper, the auditor may identify the audited figures, through quotation on the page on which they are mentioned. In France, the Stock Exchange Operations Committee demands that the source of the information published on a website should be mentioned.

XML (Extensible Markup Language)[1] is the universal data language on web. It allows the creation of unique data formats for certain specific applications, granting the developers the possibility of forming, out of a large variety of applications, structured data for local calculations, presentations, ratios, statistics.

XML allows the creation of unique data formats for specific applications, also ideally serving as a form for the transfer of structured data in-between servers. It is a relatively new technology. This does not stand in the way of this technology as far as imposing its importance in almost all the branches of informational technologies.

What needs to be settled from the very beginning is that there are a few myths referring to XML. Namely, it is believed that XML was created in order to replace HTML (Hyper Text Markup Language). It is certain that the same structure that uses tags lies at the foundations of both HTML and XML. However, the functions of these two languages are absolutely different.

Starting from these premises, one must emphasize the fact that there are many applications of XML within the domain of international financial statements.

One of these, which is extremely important, is the interchange of data in electronic format (EDI – *Electronic Data Interchange*) between two or more data web sources. This aspect has determined a growth in its importance, as more and more companies and organizations world-wide have decided to provide access to their data bases and to exchange data with other organizations from complementary domains.

Secondly, XML represents the basis for creating another language, used for the management and publication in electronic format of the corporate financial information.[2]

XBRL (Extensible Business Reporting Language) represents an electronic format for the simplification of financial statements, performance statements, accounting

[1] See www.xprim.ru.
[2] See www.xmlfiles.com.

registrations and of other information which the organization makes available to its users in electronic format. This language ensures the publication of information in accounting, so that it may be accessible to both managers as well as investors or other participants on the financial market. Moreover, it offers to the financial community a standardized training method, publication in a variety of formats, an automatic change of financial statements belonging to various companies that wish to adhere to these new electronic technologies. XBRL increases the utility, the transparence and the simplicity of the financial statement and allows companies to communicate financial-accounting information via Internet.[1]

Thus, the introduction of the characteristics of XBRL language automatically generates the processing of the information in accounting, eliminating in this way, through remaking, the costs and elaborate work that the calculation imposes, the data analysis and comparison. We owe this fact to computers which, once they are equipped with this program, they treat data in an intelligent manner: they acknowledge the information that is contained within a XBRL document, selects it, analyzes it, deposits it and provides the interested users with it.

Its main advantage is represented by the speed of manipulation of financial data, the reduction of the chances of existence of error and automatic access to information. To companies, XBRL signifies the reduction of costs, speed and accuracy in financial statement. Consumers of this data, investors here included, analysts, financial institutions etc., may receive, find, compare and analyze data efficiently and rapidly via this language.[2]

This program is created, managed and promoted by the consortium that initiated it in 1998, XBRL International. This is a non-profit organization which comprises almost 250 companies and agencies world-wide, which work together for its adoption. The goal of this consortium is that of *transforming XBRL in a universal language of publication of financial statements via Internet, which is in perfect agreement with rules, accounting principles and financial statement practices.*

Other information available on websites

The information communicated on the web does not have only a financial-accounting character. It also comprises aspects regarding the products on the market, activities, background, social relations etc.

Under some exceptional circumstances, for instance an emission or public buying offer, share-holders will be entitled to a more developed financial information during the exercise.

One can differentiate between the general detailed information offered by annual financial statements and other information regarding the specific risks of the company, which would be communicated more frequently (biannually or quarterly). Also known in English by the name *disclosure*, this information is only solicited either by accounting rules or by the law, or it is voluntary. Here we may include press conferences, information regarding a new product, the choice of a new president, the acquisition of a

[1] http://www.xbrl.org/XBRLandBusiness/

[2] IASB (2004).

subsidiary in a foreign country etc.[1] Electronics modifies perspective. Although the cost of production of information stays the same, that of its diffusion is no longer an acceptable excuse. Share-holders and other external users will thus be able to acquire a global vision of the life of the company and in this way to found their decisions on pertinent, correct information that has especially been obtained in due time.

The development of electronic information grants in the end access to certain data which is accessed with difficulty within traditional patterns of financial statements. Many other aspects of the information of a company will be approached in this manner.

This aspect might become the basis of a new type of annual report in which financial statements will only represent one section. The main problem would then become achieving some sort of balance between competition and commercial sensibility, on the one hand, and the need for unlimited information from the part of accounting-financial analysts, on the other.

Challenges and opportunities for financial statements internationally

The financial statement is facing nowadays a variety of challenges but opportunities as well, which support the process of convergence unfolding at a global level.

In the process of harmonization, countries throughout the world are in search of the common presentation form of financial statements, of the other information that companies put at the disposal of their public and the users that are interested, as well as of formulating the legislative frame that would support their conception, drawing up and publication.

Companies publish an enormous quantity of information. Starting from the premise that this information is believable and relevant as far as its manner of conception is concerned, in agreement with the accounting international standards, the opportunity and rapidity of access to it has considerably increased in the past few years, through the usage of the Internet and the programs developed via Internet, in addition to traditional mediums for data manipulation.

The sustained continuation of the globalization and harmonization of international accounting is necessary (with everything that it involves: financial statements, information of any kind regarding the activity of the firm etc.), so that the differences in financial statements between countries and, in some cases, within the same country, should disappear.[2]

Globalization is a hard fact of present-day economic life, in the context in which activity on international markets has dramatically increased. This situation has determined a growth in the acquisition of foreign companies, in the need for financial resources and implicitly in that of markets of capital. Contemporary global economy undergoes nowadays a process of conversion from the pattern based on interdependent national economies to the pattern created according to a network of multinational firms, which act globally.

The development of an accounting system, of a uniform manner of making financial statements and of a financial audit internationally compatible, their correct application into practice renders the rigor that is so necessary, particularly to transition economies

[1] Holt and Hein (2001, p. 10.3).

and which leads to the amplification of the trust coming from internal and international investors, but also from credit, insurance-reinsurance institutions and from capital markets in general, through the protection that is granted by information in accounting that has been constructed and audited accordingly.

Under these circumstances the part played in ensuring the comparative quality of economic information has increased significantly. Hence, nowadays there are a lot of reasons that have led to the necessity of uniform financial statements, that can be applied world-wide.

There no longer are barriers that allow rapid, efficient and clear access to information, there is only the pressing necessity of finalizing harmonization and normalization internationally, so that global implementation and acceptance should be reached.

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Romania: From the quantitative monetary aggregates to inflation targeting

CONSTANTIN FLORICEL AND IONUT CRISTIAN VOICU[*]

I.

Once the Romania moved toward market economy, the presence of a free central banking institution started being necessary in, at least, two decision areas:

- First: the last resort lender or banker for all romanian banks,
- Second: the monetary policy management.

It can be noticed that since its establishment, Romanian National Bank (RNB) has been constrained to adjust its monetary initiatives to several urgent main objectives: maintaining a healthy foreign currency position or liquidity, and improving the low level of M2-aggregate participation to GDP (E.G. the last one being around 30-33% of GDP – almost two times lower than the performance of other central european democratic countries like Hungary, Poland, Czech Republic).

The lack of historic capitalism experience, the delays of governmental legislative and economic reforms, the ownership changes of the former state-own banks, the existence of the real negative interest rates on banking deposits, the regional crises (E.G. former Yugoslavia Republic, Kosovo situation), the high costs of financial intermediation, the alternative of financing by arrears, and the lack of legislation in by-law forced recovery of receivables, all that together were challenges affecting the health of banking system. On such a non-favorable premises' structure including both periodic major macroeconomic disequilibrium and a partial national currency crises during 90's, we were witnesses at the lowering significance for those monetary aggregates chosen as intermediate targets (E.G. the phenomenon of artificially sustaining the currency exchange rate having as consequence a deterioration of foreign reserves) and at the necessity of periodic replacement of those without significance in order to maintain a valid macroeconomic analysis.

Historically, romanian macroeconomics could be characterized by the followings:

- inconsistence of favorable influences coming from the price liberalization, increasing participations of services revenue to GDP, or higher direct foreign investment, that were often counterbalanced by the excessive increase of wages and arrears, or by a lack of fiscal stability.
- long term-effects limitation of monetary aggregates-based policy in the absence of structural reforms, reality that generated a trend of choosing either the less ambitious objectives or the costly compromises. The results manifested as downtrends of credibility and higher levels of annual inflation compared to European Union new-entered economies.

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II.

Based on the previous circumstances:

- The monetary aggregate management of central romanian authorities was under the impact of punitive measures against those banks being out of the banking security standards including non-legal or quasi-fiscal activities (E.G. roll-over nonperforming loans). It was a moment when, as a result of inflation erosion of banking assets, there started a modification inside the components of monetary aggregates used as reference targets (a swift of importance from the monetary base aggregate toward quasi-money aggregate).
- the new challenges for the authorities being in charge of monetary policy consisted of:
  1. M2 aggregate management,
  2. inflation control and reduction,
  3. sustainable foreign currency liquidity and international reserves,
  4. control of budgetary deficit,
  5. better stability for the banking system.
- The regular NBR objectives consisted in the fulfillment of commitments related to EU integration, better efficiency of domestic institutional mechanism, better supervisory and payment system, higher degree of M2 participation into GDP.
- The monetary policy instruments were dynamically adapted and the consequence/performance was an inflationary neutrality in the end (or an inflation rate with one digit) - recorded into a monetary context characterized by liquidity excess and amplified sterilization operations. unfortunately the distortions generated by the stage of administrative money control has continued to be present on quite important scale. NBR has recently adopted restrictive decisions related to the indebtedness size limitation on retail market, and also to the authorized banks' capacity for lending in foreign currency.
- Open market operations have continued to be used as an essential instrument toward money sterilization. Among such operations a central role was played by the state-securities repo reverse activity and the drawing of deposits.

III.

As a consequence of the fact that NBR was forced to accommodate high fiscal and quasi-fiscal deficits, doubled by the loses recorded among the state companies and in agriculture area, the monetary aggregates recorded amplified fluctuations:

- Econometric analysis according to the monthly NBR statistics, proved a high significant correlation on long term between M2, industrial output, and romanian currency deposits drawn by NBR. Additionally excessive role of M2 upon inflation has proved that in case of Romania the price dynamics is not an exclusive monetary phenomenon. Besides, NBR has used M2 as monetary anchor because that indicator had a better significance compared to monetary base, looking to increase the availability of money offer in the same direction with GDP's dinamics but at a slower slope.
- Due to M2's accelerated increase, back by the increasing commercial deficit and the dynamics of loans and arrears, there was identified a hidden latent inflation well-

administrated by the Central Bank through monetary sterilization interventions. thus, the low linear slope of the monetary base was mainly a response at the high interest rate policy.

IV.

It is ought to be mentioned, that the existence of a continuous dynamics and innovation among the banks' management instruments of liquidity and financial investments, did not allow NBR to apply exclusively a monetary policy based on a single interventionist instrument.

- As a particularity for Romania, during 2000-2005 period, it was noticed the absence of statistical correlation between the interest rate spread and the values of M1 or M2 monetary aggregates. thus, the overall economic environment was characterized by the presence of targeting the monetary aggregates instead of inflation.
- Also, due to excessive liquidity on the capital market, the banks started to have important deposits at NBR that were far above the minimum reserve requirements, and thus the monetary policy interest rate has acted more as an opportunity cost instruments instead of being a marginal cost of last resort financing. So, the influence of interest rate was smaller than the one of monetary aggregates.
- Additionally, we consider that the relation between NBR interventional instruments and monetary aggregates was more powerful than that between the same interventional instruments and inflation, due to the fact that the monetary aggregates include in their contents the most of banks liabilities.

V.

It is sure, that up to the end of year 2004, NBR's monetary policy strategy had wear the particularities' "suit" of monetary targeting that had meant the use of monetary base as operational objective, and M2 as intermediate objective. then, the strategy turned step-by-step toward inflation targeting. It is ought to pinpoint the fact that monetary policy appealed quantitative targets both at operational and intermediary levels. The major attempts of using extensively the exchange rate as anti-inflation anchor failed during 90's, while the exchange rate strategy was not proper for such interventions due to overall adverse monetary conditions and costs. Thus, the inflation successfully slowed down from extreme levels of almost 300% (1993 year) to almost 9% (year 2005). Such performance is still away or below compared to the performance of new-entered European Union members, but it is a trend that should continue. At the same time, the disinflation's move was not linear during that period, as there were moments when new inflation peaks were recorded (in 1997 and 1999).

- For the last three years (2004,2005,2006), Central Bank has adopted a gradually intensified monetary policy as a result of a high dynamic investment and consumer demand. The danger of exceeding the sustainable commercial deficit was a real issue for each of last years.
- By its deposits interventions, NBR looked for controlling the inflationary expectations under incertitude conditions especially on inter-banks market.

- Adopting an official inflation targeting since 2005, NBR strategy has also been sustained by a favorable free exchange rate environment. The viability of that interdependence relied on the maturity-reach effects of previous structural reforms that allowed an export competitive advantage.

VI.

Concluding, the shift from monetary targeting toward inflation targeting was done under the influences of following events:

- The existing pressure coming from refinancing the public debt and from the necessity to remain in certain boundary with the budgetary deficit. Thus, the governmental deficit financing was done mainly from foreign markets in order to slow down the interest expenses. That move affected the liquidity of the domestic stock exchange and money market in case of government securities, and led to high difference between yields offered by NBR and public finance ministry.
- NBR assigned monetary control and liquidity management functions on the mechanism of minimum required reserves. The differences among the interest rates paid on domestic currency reserves and those on foreign currency reserves were justified as a measure to discourage both the excessive lending in foreign currency, and also the speculative orders upon the domestic currency exchange rate. Thus, the minimum required reserves mechanism reflected the constrains existing in the operational environment of the last years monetary policy.
- Romanian strategy was deeply hurt by the low development of its financial markets, and the low level of monetization (E.G. % M2 in GDP).
- A precondition of potential success in the case of inflation targeting was fulfilled - the improvement of taxes collection and the reduction of money laundry.
- The important amounts of quantitative increases in foreign direct investment (yearly euro 4 billion), and also in the rest of M2's components, forced the necessity of a new strategy based mainly on non-monetary aggregates.

THE ROLE ACCOUNTANTS PLAY IN ESTATE PLANNING

Ştefan Zuca[*]

Estate planning

People commonly make plans for the orderly transfer of their property upon their death to relatives other persons, organizations, or trusts to be set up for the benefit of relatives. Such forethought is known as estate planning and is accomplished under the guidance of attorneys, often working closely with accountants. The attorney's role centers around preparing wills and, in many cases, trust agreements (discussed in detail later in the chapter). The accountant's role consists of suggesting planning techniques consistent with the objective of minimizing transfer costs (federal estate taxes, state inheritance taxes, and fees and expenses). In this capacity, an accountant often determines expected transfer costs under various options. An accountant may also play an important role in advising his or her client on accounting matters pertaining to trusts that are to be established.

Accountants' participation in estate planning is usually limited to cases in which individuals are wealthy or moderately wealthy. Under current law, roughly 99.5% of all estates are exempt from estate and gift tax laws. An accountant participating in estate planning must have substantial expertise in estate and gift taxes—a complex area of the tax laws. A detailed discussion of these laws and the use of planning techniques to minimize transfer costs is properly the subject matter of a tax course.

The Trust Feature of Estate Planning

Frequently, a will contains a provision for the establishment of a trust, whereby certain designated property of the decedent's estate is to be transferred to a trustee when the person dies._ The trustee holds legal title to the property and administers it for the benefit of one or more other persons, who are called beneficiaries. Thus the trustee serves in a position of trust with respect to the beneficiaries. This is a fiduciary relationship, and the trustee is commonly referred to as a fiduciary. The person creating the trust is referred to as the trustor (also known as the grantor, donor, creator, and settlor). The legal document creating the trust is the trust agreement. Trust beneficiaries are of the following two classes:

1. Income beneficiary. An income beneficiary is entitled to the income earned by the trust's assets, referred to as the trust principal, or corpus.
2. Principal beneficiary. A principal beneficiary is entitled to the principal, or corpus, of the trust, which is distributed according to the terms of the trust agreement (usually at the specified termination date of the trust). A principal beneficiary is also known as a residuary beneficiary or remainderman.

The income and principal beneficiaries may or may not be the same person. A common arrangement is to name one's spouse as the income beneficiary for his or her

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remaining life and name one's children as the principal beneficiaries. Another common arrangement is to name one's children as both income and principal beneficiaries, with some or all of the income to be used for their support and the principal to be distributed to them when they reach a specified age.

The Basic Accounting Problem

Regardless of whether the income or principal beneficiaries of a trust are the same person or persons, it is necessary to account for the separate interests of each class. Accomplishing this task is the subject of this chapter. The requirement of correct separate accounting for the interests of each class is the reason for the special theories and techniques for accounting for the administration of estates and trusts by fiduciaries. Otherwise, quite simple record-keeping procedures are adequate.

Accounting for the separate interests of each class of beneficiaries is even more difficult because a built-in clash of interests exists between the two classes. When the principal and income beneficiaries are not the same person or persons, the clash revolves around who gets what. When the principal and income beneficiaries are the same person or persons, the clash concerns the timing of distributions. Frequently, disputes between these interests lead to litigation.

Although a trust may be established by a transfer of property to the trustee during the transferor's lifetime (known as an inter vivos trust), we deal solely with trusts that are created by a gift made in the will of a decedent (known us a testamentary trust). Thus we must consider the administration of a decedent's estate in connection with the establishment of a trust.

The Accounting View

For accounting purposes, we treat the estate and the trust as separate accounting entities Further more, we conceptually view each of these separate accounting entities as composing two accounting entities: a "principal entity" and an "income entity." Thus, conceptually, four accounting entities exist.

The Tax View

For tax-reporting purposes, estates and trusts both are treated as taxable entities. They are not legal entities, however, in the sense that corporations are legal entities.

2. Principal versus Income

When a testamentary trust is established, every transaction must be analyzed to determine whether it relates to principal or income. An incorrect determination has important legal consequences to a fiduciary. If it is later determined that income has been overstated and the fiduciary cannot recover the amount of the overpayment from the income beneficiary, the fiduciary must make up the deficiency. In turn, if the error was made by the accountant or was based on the bad advice of the fiduciary's legal counsel, these persons may be professionally responsible to the fiduciary.

Manner of Analyzing Transactions
Reference to the Trust Agreement

In determining whether a transaction pertains to principal or income, GAAP is not the point of reference. The trustor may create his or her own definition of income. In other words, the trustor may specify the receipts that are to be income and the receipts that are to be principal. Likewise, the trustor may specify disbursements to be treated as charges against income disbursements to be treated as reductions of the principal. Accordingly, all transactions must be analyzed as to the decent's intent.

Because the decedent is not available, the first step is to determine whether the decedent's intent is expressed in the trust agreement. Unfortunately, a common shortcoming of estate planning is that trust agreements usually do not explain in detail the treatment to be accorded specific types of receipts and disbursements. Many potential problems can be avoided if the decedent's personal accountant, who should have a knowledge of his or her client's properties, participates in the preparation of the trust agreement sections that pertain to accounting matters.

Reference to State Law

If the treatment of an item *cannot* be resolved by referring to the trust agreement, the *second step* is to find out what the *state law* is on the subject. Again, GAAP is *not* the point of reference. The Revised Uniform Principal and Income Act specifically addresses the principal versus income treatment of several items. Much of the impetus for revising the original Uniform Principal and Income Act (of 1931) resulted from the development of new forms of investment property, the treatment of which was not specified in state statutes. The treatment accorded many items specifically dealt with in the act produces income results that would be obtained if GAAP is applied. For numerous other items, however, the treatment produces results that are quite contrary to GAAP. For example, the act provides that the following items be treated as increases and decreases, respectively, to the trust principal—not the trust income:

1. Gains and losses on the sale of corporate securities.
2. Gains and losses on the sale of rental property.
3. Bond discounts (with certain exceptions) and bond premiums.

Reference to Case Law

If the treatment of an item is not covered in state law, the third step is to determine whether the courts have encountered and ruled on the same problem. If so, the answer is found in case law. If the answer cannot be found there, the fiduciary may petition the court for a determination.

The Accountant's Role in Analyzing Transactions

When the treatment to be accorded an item is not clearly set forth in the trust agreement or state statutes, the accountant does not determine whether an item pertains to principal or income. This is the function of the fiduciary, the fiduciary's legal counsel, or the courts. The accountant's role is expanded, of course, when the trust agreement specifies that income is to be determined in accordance with GAAP. Such cases, however, are the exception—not the rule.

Manner of Record Keeping

Because the interests of the principal beneficiary and the income beneficiary must be accounted for separately, it is necessary to identify the assets and transactions pertaining to principal and those pertaining to income. Conceptually, we may view the assets and transactions pertaining to principal as belonging to a separate accounting entity and do likewise for the assets and transactions pertaining to income.

One method of record keeping is to physically maintain separate journals and general ledgers for each accounting entity. An alternate method is to use one set of books for both entities but to use separately identified columns in the journals and separately identified accounts in the general ledger for principal and income. This technique allows separate trial balances to be prepared for each accounting entity, as though two general ledgers were used. In practice, this technique is quite simple to work with, largely because cash is usually the only type of asset common to both principal and income.

Cash Basis versus Accrual Basis At the Beginning and the End of the Income Beneficiary's Rights

In most respects, the Revised Uniform Principal and Income Act provides for the use of the *accrual basis* in determining at the time of the person's death the assets to be treated as part of the trust *principal.* The purpose, of course, is to establish a reasonably fair and practical starting point to determine income for the *income* beneficiary. Specifically, the following items are to be included as part of the trust *principal* at the time of death:

1. Amounts due but not paid at the time of death.
2. Prorations of amounts not due at the time of death that pertain to periodic payments, including rents, interest, and annuities.
3. Corporate distributions declared for which the date of record precedes the person's death.

The cash basis is specified for all other items. In a somewhat parallel manner, the act provides in most respects for the use of the accrual basis on termination of an income interest to effect a reasonably fair and practical cutoff of the income beneficiary's interest.

Accounting Periods between the Beginning and the End of the Income Beneficiary's Rights

For accounting periods between the beginning and the end of the income beneficiary's rights, the accrual basis in most respects does not fit in with the underlying objective of the fiduciary, which is to account for the flow of assets in and out of his or her control. Accordingly, with one major exception, the cash basis is considered more appropriate for such accounting periods. The accrual basis offers much better measuring results, however, when determining the income of a business in which principal is invested.

At the End of the Estate Administration

When the income rights of the income beneficiary are established at the time of the person's death he end of the estate administration is not relevant to the income and principal beneficiaries. Using the accrual basis is therefore unnecessary at the end of probate administration. Of course if the trust agreement provides that income rights do not start until the end of the estate administration,

accrual techniques are appropriate..

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RESULTS FROM AN INTERNATIONAL AWARENESS SURVEY

James K. McCollum[*]

Need for Culture Awareness in International Business

Business persons who engage in international commerce need to be aware that people differ in their perspectives around the world. We now take that as a "given" as the world becomes more globalized, but mistakes are made and managers are sent back home because of their lack of cultural sensitivity every day. In the mid-1990's the estimates of losses due to these mistakes was in the millions of dollars for multinational companies and it is even more today. Of international business failures, Beamish et al say, "In our experience, companies *and managers* often fail not because they had the wrong strategy, but because they were not capable of implementing it effectively."[1] What is indicated here is a failure to communicate, to gain acceptance, and to be effective in dealing with another culture.

Over the years since the early 1990's when American companies became aware that they had to become involved in international business, more training for managers to be involve in international business has become the norm, yet blunders still occur and managers are sent home early because they could not manage in a foreign environment. When I first began teaching international business courses in the early 1990's we emphasized that managers must know their own culture inside and out and then compare it to the culture of the host country where they would work to be able to be effective. This advice is probably more relevant now than at that time. In the early 1990's when I asked sections of students "Who wants to go outside the U.S. to work in international business, no more than two students out of fifty would raise their hands. When I met several classes earlier this year and asked the question, more than half would raise their hands.

A "Study Abroad" Program in Romania

In July, 2006, we had six of our upper level undergraduate and four of our graduate students from UAH working on business degrees participate in a "Summer School" class at the Romanian-American University in Bucharest. The subjects covered were Global Economy, International Trade, Globalization, Project Management, International Finance, and International Management. UAH students and Romanian-American Students participated together in group exercises and in cultural activities. The final reports/exams of the American students indicated that they had greatly enjoyed the "study abroad" program and they demonstrated that they had learned a great amount about international business, well beyond what they could have learned in residence at UAH.

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[1] Beamish, Morrisn, and Rozenzweig, 1997, p. 181.

One fascinating aspect of the learning experience was mentioned by almost all of the students – the cultural differences described in the International Management class taught by Professor Valeriu Potecea. One graduate student who had already taken an international business course wrote,

”Geert Hoefstede, an influential Dutch expert on the interactions of national and organizational cultures defines culture as ‘the collective programming of the mind which distinguishes the members of one category of people from another.’ This programming of the mind, culture, is dynamic, ever changing, and integrated throughout society. It affects national variables from economic, legal, and political systems to socio-cultural variable as education and language. It affects our attitude toward work, time, change, motivation, and individualism. An understanding of it is important in order to successfully conduct business. One statistic in class reported that up to 40% of expatriate managers leave their assignments early because of poor performance or poor adjustment to the local environment and only half of the ones that remain are considered to be only marginally effective. This results in many failed negotiations and interactions, resulting in losses to U.S. firms of over $2 billion a year due to failed expatriate assignments.”[1]

Since most of the of the students had not taken the required course, International Business, that is in the curriculum of all UAH business students, they were for the first time encountering the cultural dimensions described by Geert Hoefstede,[2] or the Protestant Work Ethic described by Max Weber.[3] These concepts are but a beginning of what needs to be learned by managers soon to go forth into the international arena. For example, Fullerton contrasted the work ethic of the Protestants to the situation he saw in Catholicism “where the church mediates between the person and God,”[4] a difference that exists within and among some countries.

An Empirical Study of Cultural Awareness

Many anecdotal references tell us of some of the unexpected differences such as the phenomenon of Colombian fathers beating their daughters because the daughters were receiving more pay than their fathers,[5] or that French workers in government bureaucracies have little incentive to work while those in private enterprises have a tradition of craftsmanship and a huge respect for the jobs being accomplished.[6] Are these stories reflective of the true situation, or are empirical studies such as those of Hoefstede and Trompenaars[7] what we should remember?

In the latter part of the last decade, I was intrigued by this question and started to find some answers. I borrowed from a colleague, Dr. Conrad Jackson, an International Culture Awareness questionnaire he had received in a paper he was reviewing. To our knowledge, the questionnaire had not been used to gather data, but it seemed to have

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[1] Mount (2006).
[2] Hoefstede (1980).
[3] Weber (1969).
[4] Fullerton (1928, pp. 163-171).
[5] Grosse and Kyawa
[6] Lee(1966, pp. 110-116)
[7] Trompenaars (1993)

promise for determining differences in cultures. Since I was teaching three sections of International Business per semester, I had the chance to accumulate some data using student teams. The requirement I gave them was to give an American response to each by the consensus of the team (three to five students each), then get responses from three or more non-natives who were students or working in our community on the evaluation of several statements in the questionnaire. From these responses, the students were to evaluate cultural differences.

The Questionnaire

The instructions accompanying the questionnaire were as follows: "Below is a list of statements describing various aspects of a country's culture. Please circle the response which best describes each country's culture.

1=Very Inaccurate 2=Mostly Inaccurate 3=Slightly Inaccurate 4=Uncertain
5=Slightly Accurate 6=Mostly Accurate 7=Very Accurate

Thus, the questionnaire was asking for Likert Scale responses with seven variations of response. The implications were that the numbers assigned were to be used to compare the strength of the response and thus a mean score could be attained for each group of respondents for each statement. The layout of the questionnaire was as follows for each statement (using the first statement as the example):

1. People believe that hard work leads to high achievement

United States	1	2	3	4	5	6	7
Country 1	1	2	3	4	5	6	7
Country 2	1	2	3	4	5	6	7
Country 3	1	2	3	4	5	6	7

The questionnaire contained 33 statements ranging from work expectations to use of time, communications, education, and attitudes toward government. Using the questionnaire, the student teams gathered responses on their own country, the U.S., and three other countries. With this data, they wrote a report describing the differences they discovered. Many of the teams reported that it had been a valuable learning experience to examine their own culture and then compare it to that of other countries. I retained the questionnaires since then with the intention of trying to make some larger comparisons, but had not done so until the renewed interest I received from our experience in the RAU Summer School. Recently, I looked again at the questionnaires. I could find only 39 sets which seems to less than those that I once had. Of these 39, I found 30 with usable data for my purposes. Instead of comparing the responses on 33 statements, I picked 12 that I felt were most relevant. The other 11 are:

2. Children are taught to conform and be "team players."

3. Women are expected to be subservient to men.

4. People should listen to and obey people in authority

5. Men and women are not given equal opportunities

6. Males and females are treated the same in society

7. The society values working together as a group.

8. The work ethic is one of hard work and dedication.

9. Being independent is valued.

10. People are encouraged to think and speak freely.

11. People value being direct and speaking freely.

12. Communicating directly what is intended is valued.

From the responses received, I found sufficient numbers to attain six clusters of respondents: U.S., European Union, Asian nations, Former Socialist nations, Developing nations, and Islamic nations. The number of respondents varies from 30 for the U.S. (which represents more than 90 individuals, since the teams were presenting a consensus for the team on their own country, 38 Former Socialist respondents (mostly Romanian and Russian), 16 EU respondents (British, Germans, French, and Greeks), 13 Developing nation respondents (from Africa and Latin America), and 7 Islamic responses. A fault of the study is that the numbers for some categories, especially Islamic responses, is small. Another possible fault is that all respondents were living in the U.S. at the time the responses were taken. Thus readers will have to evaluate the validity of the study within these limitations. In that regard, we may want to replicate this study with a larger sample and within other venues to determine the validity of these findings.

Results of the Study

1. People believe that hard work leads to high achievement.

U.S.	6.1
E.U.	6.3
Asia	6.0
Former Socialist	5.0
Developing	5.6
Islamic	4.3

The majority in the study find the statement slightly accurate to mostly accurate. The mean of the seven Islamic responses indicate uncertainty about the statement.

2. Children are taught to be team players.

U.S.	3.6
E.U.	4.3
Asia	6.1
Former socialist	4.7
Developing	4.2
Islamic	4.7

The most pronounced difference is the "mostly accurate" mean of the responses of Asians participants. The others are much less positive, with the U.S. leaning toward "inaccurate."

3. Women are expected to be subservient to men.

U.S.	2.3
E.U.	2.8
Asia	6.7
Former Socialist	3.5
Developing	4.8
Islamic	5.7

Asian and Islamic responses show "mostly accurate" and above responses. At the other end of the spectrum, the U.S. and E.U. are saying "mostly inaccurate."

4. Men and women are not given equal opportunities.

U.S.	4.4
E.U.	4.3
Asia	5.4
Former socialist	4.7
Developing	5.1
Islamic	6.1

These results show that the Asian respondents and especially the Islamic respondents believe that women are not given equal opportunities.

5. Males and females are treated the same in society.

U.S.	3.2
E.U.	3.6
Asia	2.2
Former Socialist	4.8
Developing	2.5
Islamic	1.5

The former socialist respondents are the only positive respondents (though weak) on this statement. Islamic respondents say it is very inaccurate.

6. People should listen to and obey people with authority.

U.S.	4.8
E.U.	4.7
Asia	6.4
Former Socialist	4.7
Developing	5.7
Islamic	4.8

Asian and Developing countries are most positive on this statement. The others are only slightly positive.

7. The society values working together as a group.

U.S.	4.1
E.U.	4.8
Asia	5.2
Former Socialist	3.7
Developing	5.3
Islamic	4.6

Asian and Developing countries are most positive on this statement. Former Socialist countries are slightly negative.

8. The work ethic is one of hard work and dedication.

U.S.	5.4
E.U.	5.3
Asia	5.4
Former Socialist	4.5
Developing	5.3
Islamic	4.6

The mean scores of all respondents are positive with slightly less positive scores for Former Socialists and Islamic countries.

9. Being independent is valued.

U.S.	6.4
E.U.	5.4
Asia	3.8
Former Socialist	4.8
Developing	4.4
Islamic	4.0

The mean of U.S. respondents is by far the most positive among the groups. Asian and Islamic respondents are uncertain.

10. People are encouraged to think and speak freely.

U.S.	6.0
E.U.	5.4

Asia	3.5
Former Socialist	4.9
Developing	4.6
Islamic	2.3

This statement shows a wide difference between U.S. and Islamic respondents. E.U. respondents are also very positive while the others are nearer the midpoint.

11. People value being direct and speaking their minds freely.

U.S.	5.9
E.U.	5.0
Asia	3.1
Former Socialist	4.3
Developing	3.4
Islamic	2.3

The response to this statement is widespread with the U.S. and E.U. being most positive and Asia and Islamic being most negative.

12. Communicating directly what is intended is valued.

U.S.	5.9
E.U.	5.2
Asia	4.5
Former Socialist	4.5
Developing	4.4
Islamic	3.1

All responses are positive except those of Islamic respondents

Summary and Conclusions

The study described in this paper was conducted toward the end of the 1990's in several sections of an International Business course at the University of Alabama in Huntsville (UAH). This course is required of all business students at UAH – for the undergraduate students to be taken in their fourth year, for graduate students early in their graduate studies. In the course, the students studied international management, marketing, and finance. In my portion of the course, the students studied international management. An important aspect studied in international management is cultural awareness.

Many studies have been conducted showing differences in cultures around the world. These studies are helpful to students, however, I found a live exercise that enhanced student understanding. The exercise consisted of 33 statements that students were to use with themselves and non-native respondents. Student teams compared the responses of their group representing the U.S. with responses from three non-native respondents to see if differences existed. The teams did find large differences and reported that they had gained important insights about cultural differences from making their analyses.

Using the questionnaires from thirty teams, I tabulated mean scores on twelve of the statements which gives a bigger picture of cultural differences between six groups: U.S., E.U., Asian, Former Socialist, Developing, and Islamic respondents. The results relating to most of the statements are similar to what was found by Hoefstede and Trompenaars, thus we do not claim any significant differences from these researchers. The findings show a high adherence to working hard and adhering to a "work ethic" for being successful among U.S., European, and Asian groups, more opportunities for women in U.S., European, and Former Socialist groups, more respect for authority among Asian and Developing groups, more desire for independence among U.S. and European groups, and more desire for open, direct communications among U.S. and European groups than were found in other groups.

There may be statistically significantly differences when comparing groups on some of the responses, but I have not attempted that kind of analysis since some of the numbers are small. I leave it to future researchers to replicate this study with a larger number of respondents. One of the interesting aspects that appears valuable is that there are Islamic responses for comparison – something that is seldom seen in such comparative studies.

Whether or not the questionnaire is used to gather information for research articles, the exercise for the students is highly valuable since it forces them to examine their own culture and then compare it to the culture of three other diverse nationalities. I highly recommend the exercise for international business students and can provide the larger questionnaire for anyone who is interested.

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ACCOMPANYING MEASURES IN THE CONTEXT OF ROMANIA'S ACCESSION TO EU

Gheorghe Popescu[*]

New Consensus on Enlargement

In May 2006 the Commission considered that "Bulgaria and Romania should be prepared for EU membership on 1 January 2007, provided that they address a number of outstanding issues." Since then both countries have made far reaching efforts and addressed many of the challenges. This has sufficiently brought them into line with prevailing standards and practices within the Union. As for the limited number of outstanding issues the Commission's report demonstrates that the EU disposes sufficient remedies to ensure that the interests of the Union and its citizens are protected.

On september 26, Commission confirms Bulgaria's and Romania's EU accession on 1 January 2007, but completed by a rigorous package of accompanying measures the Commission adopted its final monitoring report on the preparedness of Bulgaria and Romania for EU membership. In fact, since May, the two countries have successfully addressed about half of the identified open areas. Commissioner for enlargement, Olli Rehn underlined: "Our approach is fair and rigorous. It is fair because we recognized the progress that has been achieved and we gave credit where it is due. It is rigorous because we established the necessary mechanism to accompany Bulgaria and Romania on their reform path, in the interest of the two countries and of the EU as a whole." Subject to the outstanding ratification processes in 4 EU Member States[3], on 1 January 2007, Bulgaria's and Romania's accession will bring 30 million people into the EU, thus completing the EU's historic fifth round of enlargement and creating a Union of almost half a billion citizens.

Based on the solid progress achieved, the Commission considers that both countries will be in a position to take on the rights and obligations of EU membership on 1 January 2007. To address the limited number of areas where further work will be necessary, the Commission proposes a package of rigorous accompanying measures. It was with great satisfactions to take note about the evaluation of European Commission that "Throughout the one and half decade of preparations for EU accession Bulgaria and Romania have carried out an extraordinary reform process and they have gone through a remarkable transformation. Their accession does not compromise the functioning of the EU. However, we have not to forget that there are still a number of area (limited) where further progress is needed in the months leading to accession and beyond. Therefore, upon accession, the Commission will take, if necessary, accompanying measures to prevent or remedy any persisting shortcomings to ensure the smooth accession of both countries." As such as: safeguard measures, transitional measures, financial corrections on EU funds, and a cooperation and verification mechanism for the judiciary and the fight against corruption.

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It is understandable that the Commission must perform its role as guardian of the Treaties and to ensure the correct application of EU policies in all Member States. These include measures complement, infringement procedures, competition policy measures, and [traditional] measures for the management of EU funds, and monitoring mechanisms, for example in the areas of Internal Market and Justice, Liberty and Security. In fact it is in their advantage that the Commission will make full use of these instruments wherever necessary to ensure the smooth accession of Bulgaria and Romania.

In the May 2006 monitoring report the Commission concluded: "Romania needs to continue its efforts and demonstrate further results in the fight against corruption. It also needs to consolidate the implementation of the ongoing justice reform and further enhance the transparency, efficiency and impartiality of the judiciary." In the fight against high-level corruption, Romania has made significant progress since May both in completing its legislative framework to fight corruption and in establishing a solid track record of serious non-partisan investigations of high-level cases that have led to indictments and judicial proceedings. The National Anti-Corruption Directorate (DNA) now regularly launches investigations on the basis of information from public control bodies, which shows that the institutional framework has become more effective. Furthermore, two national campaigns have been started to raise awareness among the public, and civil servants in particular, of the negative consequences of corruption.

The main challenges as regards fighting corruption are firstly in ensuring the sustainability and irreversibility of the recent progress in serious non-partisan investigations into high-level corruption. Secondly, all political actors need to demonstrate their commitment to fight corruption, ensuring that no one is perceived to be above the law. Results in the ongoing reform of the justice system are tangible: the interpretation and application of the law is being further harmonized and staffing levels are increasing. The legislative framework underpinning the ongoing reform was consolidated in May through the adoption of the Law on Mediation. A Fundamental review of Civil Code, Criminal Code, Civil Procedure Code and Criminal Procedure Code has been started. Overall working conditions have improved and a study has been launched to manage staff resources more efficiently. In addition, the number of cases pending before the civil section of High Court has decreased by approximately 15%. All courts and prosecutor's offices have been given online access to legislation and case law.

Safeguard clauses

In order to prevent or to remedy particular problems or threats to the functioning of the Union the existing rules provide safeguard mechanisms. Any measures taken should be proportional to the corresponding shortcomings. The EU legal order, which applies to all Member States, provides many safeguard measures in the various EU policies. In addition to this, the Accession Treaty for Bulgaria and Romania provides for further safety nets to address potential accession related difficulties. The following three safeguards can be invoked up to 3 years after accession: a general economic safeguard clause; a specific internal market safeguard clause; a specific justice and home affairs safeguard clause. We must take in to considerations that these safeguards are the same as the ones included in the Accession Treaty of the Member States who joined on 1 May 2004.

One of very frequent questions stirring people was "what is the general economic safeguard clause?" The general economic safeguard clause is a traditional trade policy measure. It aims to deal with adjustment difficulties which an economic sector or area in either old or new Member States may experience as a result of accession. Member States (new and old) may apply, during a period of three years after accession, for authorization to take protective measures in order to remedy such economic difficulties. Of course the European Commission may then decide such measures. That could be decided only after accession and shall not entail frontier controls. Another question waiting an answer is regarding the internal market safeguard clause. In fact, if Bulgaria or Romania fails to implement internal market legislation with a cross border effect and this risks a serious breach in the functioning of the internal market, the European Commission may take safeguard measures. It may do so either upon its own initiative or on the request of a Member State. Such safeguard measures may be taken until 3 years after accession, but they may be applicable beyond that date until the situation is remedied. The European Commission may modify, shorten or terminate the measures in response to progress. If necessary, the measures may be decided prior to accession and become applicable upon accession. The internal market safeguard clause covers the four freedoms and other sectoral policies such as competition, energy, transport, telecommunication, agriculture and consumer and health protection (e.g. food safety).

The decisions with the Commission will be taken upon the measures on a case-by-case basis. The measures may limit the application of the internal market or cross-border EU policy in the given sector only as much as necessary to remedy the situation. Priority will be given to measures which least disturb the functioning of the internal market and, where appropriate, to the application of the existing safeguards in the EU laws and standards. The internal market safeguard measure applies exclusively to Bulgaria and Romania and not to the other Member States.

One of the most known question is what is the justice and home affairs safeguard clause. If there are serious, or imminent risks of serious shortcomings in Bulgaria or Romania in the transposition or implementation of EU rules relating to mutual recognition of judgments in criminal or civil law, the Commission may, after consulting the Member States, take safeguard measures. It may do so either upon its own initiative or on the request of a Member State. Safeguard measures in this area may be taken also until 3 years after accession, but they may be applicable beyond that date until the situation is remedied. Measures decided before accession would be applicable as from accession. If necessary, the measures may be decided prior to accession and become applicable upon accession.

The justice and home affairs safeguards are closely linked to the functioning of the justice system. Examples of areas covered are insolvency proceedings, proceedings on matrimonial matters and the matters of parental responsibility, uncontested claims, or the European Arrest Warrant. The main risk is, concretely, that the Commission could temporarily suspend specific rights of Bulgaria and Romania under the EU laws and standards. For instance, it could enable current Member States to refuse automatic recognition and enforcement of certain civil and criminal judgment and arrest warrants in either Romania or Bulgaria.

Regarding the transitional measures the Commission may, for three years after accession, prevent the export of Romanian products which do not comply with EU veterinary, phytosanitary and food safety rules, to the rest of the EU. To take a concrete example, the export of live pigs and pig meat products of Romania to the rest of the EU will remain banned as long as the animal disease classical swine fever has not been eradicated. For instance, food safety in Europe can be guaranteed by the possibility to prevent the sale of unsafe products in the internal market. The Commission may add further food establishments to the list of those banned for three years after accession from exporting to the rest of the EU after accession. Those establishments which do not comply with EU standards can only sell their products on the domestic markets. By the end of this period, these establishments either have to be upgraded or close down. In addition, there are also transitional measures which have been agreed during the accession negotiations, laid down in the Accession Treaty. They concern specific areas where either Bulgaria and Romania or the current Member States are allowed to not fully apply the EU laws and standards during a limited period after accession. These areas cover for example the free movement of workers, acquisition of land, road transport and some aspects of the environmental and agricultural EU laws and standards.

For the Romanians a very important issue is financial correction of EU funds. Upon accession, Romania will benefit from substantial EU funds, in particular structural and agricultural funds. The Commission will ensure that these funds are properly managed. Any improper use of EU funds will lead to financial corrections. These may consist of delayed disbursements, reduction on future payments or recovery of funds. For structural funds, the EU laws and standards provide four types of control that may lead to financial corrections. Firstly, every Member State needs to submit operational programs which have to be approved by the Commission before any payments can be made. Secondly, if Romania do not have adequate management, certification and audit authorities, no interim payments will be made. Thirdly, the disbursement of funds for the programs can be interrupted, suspended or cancelled if the Commission suspects or detects cases of irregularities or fraud including corrupt practices. Finally, financial corrections can take place in case irregularities are found during the regular ex-post controls.

For agricultural funds, Member States are obliged to have accredited and efficient paying agencies to ensure the sound management and control of agricultural expenditure. Secondly, Member States are also required to operate an integrated administrative and Control system (IACS), for the direct payments to farmers and parts of rural development expenditures, in order to avoid for example fraudulent practices and irregular payments. Thirdly, if Member States fail to operate such control systems properly, the Commission decides ex-post on financial corrections through the annual financial controls. Finally, if the Commission concludes that the funds are not spent according to the rules, the Commission may suspend or temporarily reduce the payment of advances, on a case-by-case basis. In addition to these mechanisms for agricultural funds applicable to any Member State, the Commission has introduced specific rules for Bulgaria and Romania to address the risk that their IACS will not function properly as from accession. The funds covered by IACS present around 80% of the agricultural funds and concern direct payments to farmers and rural development expenditure. This additional mechanism gives the to Romania time to complete the necessary work on a properly functioning IACS. The Commission will closely monitor the situation in 2007. In case of systemic problems with the management of EU funds, the Commission will later in 2007 decide whether to withdraw provisionally 25% of the payments covered by IACS. During the annual ex-post controls, the Commission decides whether to maintain the reduction.

The cooperation and verification mechanism for the judiciary and the fight against corruption it is the Commission commitment to establish a mechanism to cooperate and verify progress within the reform of the judiciary and in the fight against corruption and organized crime after accession. This will be based on the Accession Treaty. Concretely, Romania shall report regularly on progress in addressing specific benchmarks. The first report should be submitted by 31 March 2007. The Commission will provide internal and external expertise to cooperate and provide guidance in the reform process and to verify progress. The Commission will then report to the European Parliament and the Council by June on the progress made by both countries in addressing the benchmarks. The Commission's reports will assess whether the benchmarks have been met, need to be adjusted and may request further reports on progress if necessary. The mechanism will continue until the benchmarks have been met.

Finally, the Commission will adopt a Decision implementing and defining the modalities of this mechanism after consulting the Member States. It will enter into force on 1 January 2007. The Commission reported on the progress in all these areas in its 16 May monitoring report. On this basis, it concluded that Romania should be prepared for EU membership on 1 January 2007, provided that it addresses a number of outstanding issues. The present report reviews the progress in these outstanding areas. It highlights the main achievements and pinpoints the remaining shortcomings and the accompanying measures necessary for the country's smooth integration into the EU. Romania now needs to ensure a more consistent interpretation and application of the law.

To address the outstanding issues the Commission identified, specific benchmarks that have to be fulfilled. Romania will have to report regularly to the Commission on the progress. The first such report is due by 31 March 2007. Should Romania fail to address the benchmarks adequately, the Commission will apply the safeguard measures of the Accession Treaty.

Economic criteria

Romania continues to be a functioning market economy though fiscal policy should be reinforced to increase the tax collection rate. Romania is now on track to meet the criterion on the ability to cope with market pressures within the Union. Transposition and implementation of EU laws and standards. In its May report, the Commission identified a number of areas where progress was needed in Romania’s preparation for EU membership. Since May, progress has been achieved in most of these areas. However, a limited number of areas remain where the Commission needs to see further progress in the months leading up to accession and beyond.

Agriculture - Fully operational paying agencies, accredited for managing direct payments to farmers and operators under the common agricultural policy and the establishment of functioning integrated administration and control systems (IACS) for the use of EU agricultural funds. Despite the progress achieved, the Commission does not yet consider Romania fully prepared to ensure the management and distribution of the majority of EU agricultural funds. While the institutional structure of the two paying agencies is in place, they are not yet operational. To be fully operational, the paying agencies still need to hire and train additional staff, acquire the relevant IT equipment and establish internal control and inspection structures. There remains a real risk that the IACS will not be functioning properly in Romania by the time of accession. Sustained and, in certain areas, reinforced efforts will need to be deployed in order to ensure the quality of the IACS.

It is well known that any member state must guarantee the correct allocation of agricultural funds. Any shortcoming in this respect may delay the disbursement of funds or give rise to correction or recovery of the EU taxpayers' money. In addition, a special mechanism is adopted to address the remaining systemic deficiencies in the management of EU agricultural funds covered under IACS. This allows the Commission to provisionally reduce by 25% the agriculture payments covered by IACS.

Food safety - Building-up of rendering collection and treatment facilities in line with the EU laws and standards on TSE and animal by-products. Since May, Romania has signed tendering contracts for the collection and treatment of dead animals and animal products. This is a clear step forward. However, the planned deadlines of late November 2006 for the modernization and construction of the required rendering plants are very tight, as this requires the approval by the Romanian veterinary authorities and notification to the Commission. Restrictions on the use of certain animal by-products will be imposed, if, prior to accession, Romania fails to set up an adequate collection system and treatment of dead animals and animal by-products throughout the country and to complete the upgrading of the rendering establishments,

Tax administration - IT systems must be ready for inter-operability with those of the rest of the Union, to enable a correct collection of VAT throughout the EU internal market. Since May, Romania has successfully passed the required conformance tests to operate intra-community exchanges of VAT and information on excise duties. This means that Romania's IT systems are now reliable and can interoperate with those of the current Member States. Consequently, there will not be fiscal frontiers with Romania.

Motor vehicle insurance. Progress has been made in this area. The institutions required by EU laws and standards for Motor Insurance are in place but not yet operational. The financial independence of Romania's Green Card Bureau has to be ensured. This situation leads to persistent concerns for the signing by Romania of the Multilateral Agreement of the UN Council of Bureaux prior to accession. In case the agreement is not signed. Border checks of insurance certificates would automatically be maintained for Romanian vehicles leaving Romania and entering into the EU. Practical arrangements would have to be found with the neighboring countries (Hungary) concerning the organization of these border checks.

It is the enlargement not entirely accepted or at the end?

At every enlargement, there have been in European countries doubts, but each time the Union has shown it has the institutional, financial and political capacity to absorb new members.

However, while a majority of Europeans continue to regard enlargement as positive – 55% according to the latest Eurobarometer – many citizens question its pace and scope. While the Union must honor existing commitments, there is a need for an informed, responsible debate on the future enlargements and what they mean for the Union as a whole. Recently, many politicians have called for a definition of the 'borders of Europe'. The EU Treaty indicates that any European country which respects the values of democracy and the rule of law may apply for EU membership. The Union defines itself through its members' shared values, rather than by geography. But this does not mean that all European countries must apply for membership, or that the EU has to accept all applications. It is not an automatic process, but one where each key decision requires unanimity and where conditionality is the key.

At the Commission debates was taken the concerns on the pace of enlargement seriously. To avoid an overstretch of commitments and ensure the capacity of absorption, EU enlargement policy today is based on consolidation. This means that the member countries are cautious about taking any new commitments, but stick to our existing commitments to the countries already in the process.

The consolidated enlargement agenda covers now Southeast Europe: the EU has committed itself to completing the fifth enlargement with the accession of Bulgaria and Romania, conducting accession negotiations with Croatia and Turkey, and maintaining a European perspective to the other countries of the Western Balkans – which means that the EU is committed to their eventual membership, once each of them succeeds in meeting all the conditions. While the 2004 enlargement sealed the peaceful reunification between Western and Eastern Europe, now we focus our energy on the peaceful unification in Southeast Europe.

Can we absorb these countries into the EU? In fact, the absorption capacity is determined by two major factors: the transformation of the applicants into worthy member-states, and the development of the Union's policies and institutions. The capacity of would-be members to integrate smoothly into the EU is measured and rigorously assessed by the Commission on the basis of well-established conditionality.

Rigorous conditionality is applied to all candidate and potential candidate countries. New steps in the process depend on each country's own progress with political and economic reforms. Bulgaria and Romania need to redress the remaining shortcomings before accession. Fulfillment of the accession criteria is the key for progress in the negotiations with Croatia and Turkey. Before entering the accession process proper, the Western Balkans countries have to fulfill the conditions of the Stabilization and Association Process, including full cooperation with the International Criminal Tribunal for the former Yugoslavia.

Absorption capacity is about whether the EU can take in new members while continuing to function effectively. It is a functional concept, not a geographical one. The Copenhagen European Council of 1993 stated as follows: "The Union's capacity to absorb new members, while maintaining the momentum of European integration, is also an important consideration in the general interest of both the Union and the candidate countries". Absorption capacity was dealt with for the 2004 enlargement by the Commission's Agenda 2000 document (produced in 1997), which proposed reforms of institutions, policies and the budget of the EU.

ROMANIA'S AGRICULTURAL SECTOR IN THE BRINK OF EU ACCESSION

Valeriu Potecea[*]

Romania will join EU starting January 1st 2007, but is one of its most important sectors to face the challenges of the accession? In the following, I intend to do a short scrutiny of the sector as it is, both with opportunities and challenges.

The percentage of those working within the *agricultural field* in Romania is higher than the average one in the EU, but paradoxically, the number of the employees is small, so the level of professional qualification is low. The private sector, represented by homesteads and private company, is presently the main owner of the arable land, being especially oriented towards cultivating grains, potatoes and vegetables. In 2004, Romania numbered approximately 4,5 million agricultural units, 60% having less than 5 ha. In terms of area level, within EU-15 there functioned in the same year an amount of 6,8 million agricultural units. As consequent to the mere finalization of the retrocession process and of the newly given possibility of land concentration, the average area of the agricultural unit grew to 3,1 ha (the average for the EU_15 being that of 19 ha). The agricultural contribution to GDP constantly diminished after 2000 (11,7% in 2003), after a top level of 21,1% accomplished in 1990. The present structure of agricultural production resembles the one in the 90's, meaning: 60% vegetal production and 40% zootechnical production, the Ministry of Agriculture, Forests and the rural Development aiming at a growth of the latter, in order to accomplish a level of 45%. The private proprietorship is a dominant within the vegetal production, being characterized by certain stability. The main group of cultures is made of cereals and vegetables, which represent more than 60% of the cultivated area. Every year a part of the arable surface in Romania (0,3 million ha in 2003) remains uncultivated for various reasons: some of the landowners live in the city, the aging of the landowners and the lack of financial resources, very small parcels, not proper for mechanical works, the fields which vary in level, the lack of the landowner's interest, the lack of small agricultural associations which to be able to work with a minimum of machines and the anticipation of gaining a very small income, if the land is exploited in common. The quantities of products attributed by this kind of associations to the owners of small lands are often very small as compared to the surface registered within the association or they were not offered any kind of payment.

The growth within the zootechnical field in the structure of agricultural production (characterized by a slow but constant involution) is related to supporting this field, justified by the covering of the national market demands as well as for the creation of the real export possibilities of export. The support of the field can be accomplished by national programs regarding the evolution of the number of animals and their genetic quality, the type of ownership of the zootechnical units and their number, the initiation and development of the specialized institutes regarding the animal races, the improvement of the accommodation, feeding and exploitation conditions for the benefit

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of the animals, the giving of export bonuses, etc. By means of these measures the strategic fundamental objective within the development of animal breeding is achieved, with a view to adapting to the market economy conditions, and to the accomplishment of the Romanian zootechnical production in accordance with the EU standards. The Romanian experience before 1989, as well as the EU present one, prove that it is much more efficient to have a smaller number of agricultural units (with a greater number of animals) functioning, than to disperse the number of animals into a very large amount of households.

One of the main priorities of the Romanian agriculture is a rising of the level of intensity in agriculture. But, even if the number of tractors and agricultural machines has continuously increased since 1990, as compared to Romania's agricultural surface, at a general level the agriculture still lacks a proper level of mechanization. Thus, if in Romania we have an average of 90 ha land per tractor, or 55-57 ha arable soil per tractor, in Austria the charge is of 4,6 ha. After 1989, the quantities of chemical fertilizers used within Romania's agriculture have considerably diminished. The enterprises that came into being after 1990, besides the fact that prove a very precarious efficiency, (as a result of the fertilizers usage in very small quantities), have obtained certain results because of the natural fertility of the soil, which thus considerably reduces its potential. Next, with a view to developing the agricultural production, which is meant to be ecological, the chemical fertilizers will be abandoned, and there will be used especially natural fertilizers, after they were previously selected, because some of them are rich in toxic chemical substances.

The development of the agro- alimentary field is linked to the growth of the consumption of the main agro-alimentary products per capita, which is still lower than the EU one. Still, the sector of the agro-alimentary field has known a rapid growth, both at an abstract level and as compared to the rest of the processing industries, the number of the employees being reduced with 40% as compared to 1989, fact that permitted to triple the productivity between 1990 and 2000.

In the common White that concluded the negotiations between EU and Romania (on June 24th 2004), there were identified five strategic fields: the rural development, the cultivable surface for cereals, the animal breeding, the wine sector, the agro-industry (the procession of sugar and milk). These fields prove that the agricultural policy envisaged by Romania is coherent to the Common Agricultural Policy. The amounts obtained in negotiations for the Agriculture go beyond 4 billion euro for the 2007-2009 period, the most of them being allocated for the mechanisms of the Common Agricultural Policy and the rural development (the Agriculture chapter), and almost 0,8 billion euro are destined to projects financed from the structural funds (FEOGA the orientation section). The gradual introduction of the direct payments is also an objective (as similar to the other 10 member states), during a period of 10 years, starting from 25% the level of the direct payments allocated to the 15 member states in 2007. The amount of money designed to the direct payments in Romania during the 3 years is of (967,9 million euro, including the financial allocations for the products or sectors for which there are established quotas, reference surfaces or national limits. These amounts do not need co-financing from the national budget. The amount destined to the market measures is of 732 million and includes the intervention on market and the export restitutions. These amounts will be allocated beginning with 2007, proportionally each year. The fulfillment of the previous engagements is yet worrying, some of the initial terms being already outrun, as in the case of the identification and the registration of the cattle, which were supposed to be finalized on December 31st 2004. In order to beneficiate of the direct payments, Romania must create a system to provide good administration and rigorous control of the subsidies requests, in order to prevent the defrauding of the community budget. This system is called The Integrated System of Administration and Control (ISAC). The chapter also contains a presentation of the SAPARD Program and the aspects that, unfortunately, have determined its underperformance. There are also presented the modifications of the program owed to the European Commission, in August 2005, following the notifications received from the SAPARD Agency in Romania and which aimed at a simplification of the procedure of accession the program, but also at an allocation of supplementary facilities for the youngsters, and for the investments in alpine areas.

During the preparing for the adhesion to EU, in the agricultural sector the production growth should not be the main issue but the competitively growth as the degree of fragmentation of the agricultural propriety in Romania remains at a high level with visible consequences on the reduced dimensions of the agricultural units, the competitiveness of the Romanian products is seriously damaged and the costs on a short term dedicated to their improvement include not only and improvement costs but also costs of fulfillment of sanitary, veterinary and fito-sanitary and other EU regulations. The small agricultural units will be most affected by the introduction of the new quality standards, sanitary and fito-sanitary regulations.

The alignment of Romania's agriculture to the values of the CAP will determine both positive and negative effects. Thus, besides the access to a market made of more than 450 million consumers the Romanian manufacturers will benefit from the advantages that derive from the free circulation of the agricultural products and the EU mechanism of price guaranteed, on condition that the products satisfy the quality, sanitary and fito-sanitary regulations imposed by the EU. The elimination of the tariff hindrances can lead to the disappearance of the less competitive firms, both from a quality and price point of view (as compared to the ones in the EU). The potential increase of the Romanian exports to the present member states, especially in the sectors of chicken, milk, wine and fruit, Romania's fructification of the increasing demand for agricultural products in the EU especially for milk and dairy cheese, fresh vegetables and fruits, wine, living animals, pork meat and canned goods shall be followed by an increase of the imports, that meaning an imbalance of the payments and an accentuation of the commercial deficit (already manifest). The alignment to the mechanisms of the CAP shall generate for Romania a series of costs related to the institutional construction of this policy implementation, of adoption and implementation of quality standards for agricultural products and sanitary-veterinary regulations etc. Romanian consumers shall benefit as consequence of diversification of products origin and the growth of their quality. The more products coming from different sources the higher the quality of indigenous products. It is extremely important in this pre adhesion period to accelerate the processes of improvement the quality of those aliments that does not yet meet the standards and the modernization of the processing factories in order to exploit at maximum the new selling markets that are opening and to fully materialize the opportunities they offer. In this chapter there are also presented some aspects determined by the extension of the EU with 10 more states by 1st of May 2004. The integration of the new member states at 1st of may 2004 lead to a production increasing of 10% to 20% for the majority of products and the agricultural area increased with 30%. This difference illustrates the low intensity of production in the new member states. The increasing of the total agricultural surface within the EU 25 points the significant production potential of the new members. The present restructuring processes shall determine a gradual up to a fully exploitation in a longer time of productive potential

The reform process taking place in these countries will determine a gradual exploitation of the production potential, with a view to being completely used on the long term. The task of restructuring the agriculture and the food industry, as well as the animal breeding remains a major one for the new member states, in order for them to be able to achieve real progresses in the competitiveness within the Unique Market. Is anticipated that the agricultural production shall slightly grow on medium term due to production prices slightly higher and more steady, to the favorable conditions offered by the by the Unique Market and to rural development measures.

For the EU, the extension toward East supposes an increasing of the budgetary expenses and for the Eastern European countries a sensible increasing of the cost of life. A rapid integration of the new members, even partial, has the great advantage of a convergent force, indicating the road for those remained outside the process for the moment, diminishing the possibility of action of the groups opposing to integration.

For Romania, the continuation of the process of production concentration and the initiation of agricultural units similar to the ones in the West will hold as an effect a massive deployment of the population active in the homesteads. Therefore, a major priority is to focalize the agricultural policies on creating and consolidating the fundamental determiners of competitiveness, on solving the mechanisms necessary for a modern agricultural economy, using in a most efficient way both the internal resources and the European funds, but also the time remaining until the adhesion.

The rising of agricultural productivity can generate economic activities related to agricultural production. The commercial sector of agriculture must invest and restructure, reducing the difference in competitiveness as compared to the EU agriculture. The extension of the cultures and agricultural products with an added value must be a constant target of increasing the productivity in the agricultural sector. Among these cultures there should be taken into account the production of ecological cultures.

By means of endowment, association, cheap and quality products, the economic agents in the agricultural sector can hope to be an active presence also on the integrated market. Otherwise, they take as a risk the bankruptcy.

In my opinion, a pessimistic scenario for the 2007-2008 Romania would place our country in the position of an importer of alimentary products and slightly similar to Poland, where, after almost a year and a half since the adhesion, the small farmers lacking financial resources (the most numerous) have disappeared from the market and the ones who have already had a stable situation consolidated their position even better before the adhesion.

An optimistic scenario would find in 2007-2008 Romania with a doubled productivity in agriculture, with half a number of persons whose income derives almost entirely from agriculture, and with a food trading which to respect the European regulations. A considerable number of European processors and producers could open in Romania units of agro-alimentary production (benefiting from the favorable report between the cost of the manufacture and the work productivity versus the difference in costs), most of the resulting production being destined to the overseas markets[1] and Romania becoming again an exporter of agro-alimentary products.

[1] As it happens in Poland where French and German firms take over the Polish alimentary products that are cheaper, which they export on the European market, the most favored being the Polish farmers that understood that the best for them was to invest at the proper time and to increase the level of competitiveness of the resulted products.

ECONOMIC CALCULATION AND WELFARE CONSIDERATIONS IN MONOPOLY AND FIRM THEORY

Diana Costea[*]

What is the problem with monopoly neoclassical theory from an Austrian point of view?

The critical reaction of Austrian economists to the neoclassical monopoly theory could be explained by two major facts: this theory lacks definitional clarity, necessary for any serious theoretical analysis, and it contains a dangerous theory of welfare, which is not only incorrect, but tries to justify an aggressive intervention of the state into the realm of purely voluntary market exchanges.

The problems with monopolist as single producer and seller of a good resides, for neoclassical theory, in his capacity of reaching a higher price than in the perfect competition model, by offering (and selling) a lower quantity of goods. By this method, the monopolist increases his revenues and profit, as he meets an inelastic demand curve. Consumers are hurt, says the neoclassical economist. Therefore, the state must intervene, in order to prevent future monopolist "exploitation".

The neoclassical theory was, curiously enough, accepted in its main points by Ludwig von Mises, who displaced however the perfect competition as standard for evaluating the "imperfection" of monopoly. He adopts instead a counterfactual comparison between the monopoly price and the competitive price that would have been reached on market. In fact, Mises uses two different meanings for the expression "competitive prices"; sometimes it express the prices formed on market, sometimes final equilibrium prices.

Monopolist's decision of restricting the production and the quantity offered does not automatically bring to him the higher revenues/profits he is craving for. It depends on consumers' specific demand. Says Mises: "If conditions are such that the monopolist can secure higher net proceeds by selling a smaller quantity of his product at a higher price than by selling a greater quantity of his supply at a lower price, there emerges a monopoly price higher than the potential market price would have been in the absence of monopoly."[1]

Moreover, as in reality all action is conducted in a pervasive, inescapable uncertainty framework, the monopolist must anticipate, as all other producers and sellers, the configuration of demand; it means that the occurrence of monopoly price is for Mises more restricted than neoclassical economists would think. Even if Mises does not deny the possibility of a free market monopoly price, he admits that in general it is a result of state intervention on market.

We will analyze the explicit and implicit welfare criteria that Mises employs in his theory.

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[1] Mises (1998), p. 278.

Welfare and value theory[1]

In order to demonstrate that consumers are hurt by monopolist's restriction of production, Mises makes an implicit value judgment and also assumes the possibility of an interpersonal comparison of utility. If the producers restrict the quantity produced and offered on the market and a smaller quantity of this particular good is produced, then a comparatively higher quantity of relatively nonspecific factors of production will be available for other products. This means that different consumers will enjoy a higher quantity of other goods offered on the market. By deploring the perceived reduction in quantity produced, Mises overlooks the fact that a higher quantity would have diminished the quantity of other goods. For instance, using an additional quantity of lumber to produce chairs will necessarily diminish the number of tables which could have been otherwise obtained. This allocation of resources will bring about a lower price of chairs and a higher price of tables than otherwise. These results cannot be avoided in a world with nonspecific scarce resources.

Mises does not deny the necessity of choices people have to make when directing scarce resources to competing goals. He argues that the goods produced with the factors of production now more available are, from consumers' point of view, less important than the restricted production of monopolized goods. "Capital and labour, set free by the restriction of production, must find employment in other production. . . . Thus against the smaller production of the monopolized goods one must set the increased production of other goods. But these, of course, are less important goods, which would not have been produced and consumed if the more pressing demands for a larger quantity of the monopolized commodity could have been satisfied. *The difference between the value of these goods and the higher value of the quantity of the monopolized commodity not produced represents the loss of welfare which the monopoly has inflicted on the national economy.* Here private profit and social productivity are at variance."[2] (Emphasis mine)

In the paragraph quoted, "value" could have two different interpretations: either monetary value, or subjective value. Let us analyze these possibilities and see if they could lead us to the conclusion that the monopolist restrictive decision brings about necessarily a lower satisfaction for consumers.

First of all, Mises frequently speaks about the fact that entrepreneurs, by looking for the highest net proceeds, respond to the most important desires of the consumers[3]. Without questioning for the moment the legitimacy of this criterion, we wonder why, in the case of monopoly prices, this criterion no longer applies? Mises defines monopoly prices as prices at which net proceeds are higher than otherwise. Let us accept the view that higher monetary incomes are the expression of the better satisfaction of consumers' desires and apply it to monopoly prices. The result is that the monopolistic "restriction of production" assures a rational combination of resources, a higher satisfaction of consumer preferences than otherwise, because consumers are ready to give a higher amount of money for the restricted production.

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[1] For this section, I rely upon Costea (2003), p. 47-62.

[2] Mises (1981), p. 348.

[3] See, for instance, Mises, (1998, p. 337). This is a widely accepted statement among market-oriented economists.

Thus, if, in the paragraph quoted above (Mises 1981, p. 348), "value" means total (monetary) proceeds obtained by sellers, it is contradicted by Mises's second condition of the emergence of monopoly prices, i.e., inelasticity of the consumers' demand. According to this condition, the monopolist allocates resources in order to obtain the highest net proceeds from the present use of the factors of production. This means that, by restricting production, he obtains higher net proceeds than otherwise, i.e., he directs resources to their most value-productive use. The complementary factors of production, which could have been devoted to an increase in the production of the "monopolized good," are allocated to other, more remunerative activities. If our "monopolist" thinks he could obtain higher net proceeds by using these complementary factors of production to produce yet a higher quantity of the monopolized good, he would have done it.

Other entrepreneurs are *ex ante* more optimistic about the profitability of their enterprise and bid up the prices for these factors of production. This describes in fact the normal operation of market. In any moment, on the market, the factors of production are bought by capitalist-entrepreneurs who anticipate a higher value-productivity of factors of production in the production of goods and give a higher price for them. For market advocates, this method – competition based on economic calculation – assures the rational allocation of scarce resources, i.e. the satisfaction of the most important desires of consumers, at least from a prospective, *ex ante* point of view.

If "value" means satisfaction derived from consumption of the two different kinds of goods by different individuals on the market, Mises's argument involves a clear case of an aggregation of subjective valuations and interpersonal comparison of subjective values. We should stress here that present productive use of factors of production make them less available, *ceteris paribus*, for future production. Thus, Mises would have to include in his analysis future consumers, along with present, actual or potential, consumers.

An additional difficulty comes from the very criterion "higher expected monetary proceeds means consumers' better satisfaction". Money spent for acquiring goods does not "measure" the buyer's subjective value of these goods. Mises, as do the other Austrian economists, rejected any notion of measuring value by the money prices people are willing to give up in order to obtain desired goods: "People buy and sell only because they appraise the things given up less than those received. Thus the notion of measurement of value is vain. An act of exchange is neither preceded nor accompanied by any process which could be called a measuring of value."[1]

As Austrians emphasize, money prices are exchange ratios. There is no previous act of individuals that attaches value to goods received and given in exchange[2]. From an act of exchange all that the external observer can deduce is that the individual prefers the good received to that given up. Nor is the situation on the monetary side any different. Money is nothing else than an economic good which serves as generalized medium of exchange. Individuals could prefer a good to a certain amount of money, *i.e.* they express greater preference for the good than for money, or the goods that this quantity of money could purchase.

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[1] *Ibidem*, p. 205.

[2] Lawrence H. White, "Is There an Economics of Interpersonal Comparisons?" In *Advances in Austrian Economics*, Peter J. Boettke and Mario J. Rizzo, eds. II (A), 1995, p. 135–151.

Additionally, “present” prices are formed at different points in time in the immediate past. Of course, the scales of value of individuals can change from one moment to another. This fact precludes us from deriving from the higher amount of money spent for a given good the conclusion that this good is more highly valued than another, cheaper alternative. Assume, for instance, that according to my value scale I am willing to give $1,200 for good x and $1,000 for good y, but the market prices are $800 for the first and $900 for the second. I am therefore a supra-marginal buyer for both goods. By purchasing them, I demonstrate only that at different points in time I prefer the good x to $800 (or to the goods which could be bought with this sum) and the good y to $900. But an external observer cannot say that the first good is ranked lower or higher on my value scale. He cannot even conclude that I have demonstrated preferences ranked on the same value scale.

Even if psychology would find one day an interpersonally, time-invariant measuring unit of subjective satisfaction, this discovery would not change the above economic conclusion. First, in order to assess the psychic profit or loss, people make counterfactual comparison, i.e. they compare there factual choices with an alternative they renounced upon, the counterfactual. We cannot “measure” something which was precluded to manifest in action by the very choice we made. So, we, the external observer, could measure “what is seen”, and not “what is not seen”. Second, people preferences change over time, the “same” goods – from a purely technical, chemical point of view – has different value even for the same individual[1]. Juridical decision based on this utilitarian criterion would introduce an increase of uncertainty on market, as the individual cannot be sure *ex ante* if an otherwise (*i.e.* with respect to property rights) non-aggressive productive activity would amount at the end, after computing different people’ utilities, to be incorrectly considered as an aggression.

At the level of the market for a product, the welfare information which could possibly be conveyed by higher net proceeds is even less accurate than at the individual level. In the latter case, at least we have a choice of the individual, and thus a scale of value demonstrated in action. This is definitely not true for the market demand; we cannot construct a scale of value for all consumers taken together, and even if we could arrive at a certain ranking of the goods desired by these individuals, this would be the result of individual exchanges made at different moments, not the demonstrated preference of a supra-individual acting entity. Moreover, the attempt to arrive at a unique ranking of goods at the level of the community (irrespective of the criterion chosen) is useless, as the attainment of this goal, *per* impossible, will necessarily depend on subsequent voluntary interpersonal exchanges.

In this section we have shown that Mises embraces implicitly the nonscientific method of interpersonal comparison of utility in order to support his claim that “monopoly prices” would have a negative impact on consumers’ welfare.

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[1] Otherwise, we have to explain why we do not remain in the same room for the rest of our life, if at a certain moment this is what is most important for us. Moreover, it would imply a sort of determination of people choices from a (clearly unacceptable) objective goods value – of course, at limit, it means to deny the very notion of choice, of human action and to adopt a strictly deterministic model of human being

This practice is unfortunately explicitly assumed in the neoclassical well-known demand-curve diagram.

Rothbardian ethical approach

The neoclassical approach of monopoly was seriously questioned by Murray Rothbard – followed, in the Austrian camp, by Walter Block, Hans-Hermann Hoppe, Dominick Armentano. The efforts of Austrian economists were directed toward proving the non-operationality of the concept of monopoly price on a (pure) free market, *i.e.* in the absence of state intervention. They rejected the Mises's adulterated analysis of monopoly, by focusing their attention on the definitional non-validity of monopoly price, and also on the false implicit utilitarian criterion of justice. In fact, discussing and finding the presence of a monopoly price on free-market, Mises questioned, on economic grounds, the optimality of purely voluntary institutional arrangements. However, as opposed to neoclassical scholar, Mises did not justify on these grounds a legitimate state interference with market operation.

Rothbard shows that all the particular characteristics of the so-called "monopoly price" are ordinary features of market prices: the comparative restriction of production in order to achieve a higher price and the expectation of an elastic demand above the selling price. Rothbard emphasizes that the meaningful concept on the market is that of "self-sovereignty over his person and property".[1] This is closer to the meaning of the market as a private-property order. He relegates the existence of "monopoly prices" to the hampered market, where the difference between a market price and one resulting from privilege received from the state is logically coherent.

Here, the reduction in individual's welfare stems from legal obstacles impeding market participants from following the most highly ranked use of their resources. The issue is discussed in terms of infringement on the property rights of individuals, who are prevented from allocating their property according to its most anticipatively appreciated use, irrespective of the changes in prices: "[T]he would-be competitors are injured and are forced to accept lower remuneration in less efficient and value-productive fields. The consumers are likewise injured, for they are prevented from purchasing their products from competitors whom they would freely prefer. And this injury takes place apart from any effect of the grant on prices".[2]

Rothbard[3] acknowledges that we cannot infer propositions concerning welfare by relying on monetary terms derived from value theory. Instead, his welfare criterion employs demonstrated preference based on respect for property rights.

The preeminence of the ethically grounded concept of welfare is apparent in Rothbard's *Power and Market*. Having obtained a monopoly privilege, the entrepreneur is seeking, as always, the most monetary profitable investment, all other things being equal. In this particular case, his entrepreneurial success – obtained with the "help" of political means, even if he was not actively bribing for it – is not and could not be a "sign" of satisfying consumers. It means that the assessing of entrepreneurial success supposes a

[1] Murray Rothbard (1993), p. 562.
[2] Murray Rothbard (1977), p. 37.
[3] Rothbard, "Toward a Reconstruction of Utility and Welfare Theory".

preliminary ethical judgment: is this particular exchange a voluntary one or not? Otherwise, only the welfare of some people is promoted, at the expense of others'. More important, applying different (valid) welfare judgments/criteria supposes an already ordered structure of property, to know precisely to whom belong the goods we are speaking of.

Monopoly, vertical integration in one firm, and economic calculation

Is the economic calculation impaired by the presence of a single seller of a good on the market? Rothbard seems to imply it is. He argues that by integrating a whole productive structure – even if this process is developed on the market, through a chain of strictly voluntary exchanges – some of the prices needed to perform economic calculation disappear. In this case, the seller finds himself in the impossibility to assess the profitability of this enterprise.

The maximization of revenues/profits – at best, a historical criterion of welfare – guides the producers' technological choices. Rothbard repeatedly stresses in *Man, Economy, and State* the instrument of economic calculation who perform this everyday task of practical organization of production.

The vertical integration by one firm of two or more production stages is analyzed by Rothbard with the same instrument of economic calculation. Thus, the absence of an external market – which offers the chance of an estimation of factors of production' opportunity cost – has negative consequences for firm's accountability, *i.e.* for the entrepreneurial rational allocation of resources between different production stages. The operation of natural selection on the market "tends to establish the most efficient and profitable type of production (whether for type of good, method of production, allocation of factors, or size of firm)".[1] From this Rothbard concludes that the vertical integration for a capital good product cannot even appear on the market. "For every capital good, there must be a definite market in which firms buy and sell that good. It is obvious that this economic law sets a definite maximum to the relative size of any particular firm on the free market."[2]

Rothbard argues something more than the "mere" absence of the monetary calculation for an *ex-ante* assessment of the adequacy of means to goals. He claims that any movement toward complete cartelization on market would be impossible. "Under *one* owner or *one* cartel for the whole productive system, there would be no possible areas of calculation at all, and therefore complete economic chaos would prevail… Ever more important for the maintenance of an advanced economy, then, is the preservation of *markets* for all the capital and other producers'goods."[3] This is the essence of Misesian' argument against the rational allocation of resources in a socialist commonwealth. As Rothbard emphasized, the problem identified by Mises is a purely economic one; the same difficulties are present whenever one agent (either an aggressive agent, like the State, or a private one) directs all resources in the economy. Rothbard provides, in this

[1] Rothbard (1993), p. 547.
[2] *Ibidem*, p. 548. [author's italics]
[3] Rothbard (1993), p. 548.

way, a theoretical argument against the historical occurrence of monopolist integrative tendencies.

Contrariwise, Hans-Hermann Hoppe denies that possible calculation problems, which would appear as a complete integration of all firms into one big firm, prove some market sub-optimality, even in this extreme case. His argument is ethic: as the movements toward integration of production stages are compatible with market functioning, we cannot oppose the result. As people did not acted against this market integration, *i.e.* did not demonstrated in action their preference for a more disperse productive organization, we cannot but conclude that this is, at least *ex ante*, the structure of production which satisfy consumers in the outmost.

Thus: "the existence of a monopoly would only allow one to say this: the monopolist clearly could not see any chance of improving his income by selling all or part of his means of production, otherwise he would do so. And no one else could see any chance of improving his income by bidding away factors from the monopolist or by becoming a capitalist producer himself through original saving, through transforming existing nonproductively used private wealth into productive capital, or through combining funds with others, otherwise it would be done. But then, if no one saw any chance of improving his income without resorting to aggression, it would evidently be absurd to see anything wrong with such a super-monopoly. Should it indeed ever come into existence within the framework of a market economy, it would only prove that this self-same super-monopolist was indeed providing consumers with the most urgently wanted goods and services in the most efficient way."[1]

Hoppe embraced a more Rothbardian position on this issue. Applying the Rothbardian theory of demonstrated preference in voluntary exchanges, Hoppe emphasized the non-aggressive context of successive movements performed by entrepreneur to the desired end of integrating into a One Big firm an industry and, an extreme case, even the entire economy. Two different questions arise at this point: are his actions directed under the guidance of economic calculation? And immediately following, are they counterfactually welfare enhancing? How could people assess it, except by resorting to simple value ordering on value scale, method inappropriate to the complex economy? The second question, a rhetorical one in the libertarian tradition, is: Could we legitimately initiate violence against, *i.e.* are we entitled to aggress, this enterprising person? The answer to this last question is, as least for people who make a substantive difference between violence and aggression, a negative one.

Disappearance of some prices would occur in other cases too, which are compatible with a private property order: when people' preferences for cooperation do not endorse any more a complex division of labor, when a dramatic increase in social rate of time preference demand a readjustment toward a less capitalistic structure of production. The conclusion is that the level of division of labour is not exogenously determined on the market; it is, like all other economic features, establishes on market, and tends to reflect consumers' preferences. There is a vast array of technologically possible breakings up of activities, but only some of them are economically rational, *i.e.* appropriate to the goals to be achieved.

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[1] Hans-Hermann Hoppe, "Producția capitalistă şi problema monopolului", chap. 9, www.misesromania.org.

Operationality and Law

The critique raised by Murray Rothbard[1] to the neoclassical theory of monopoly price – implicitly to Mises' monopoly theory – was centered on conceptual and operational validity of monopoly price. He demonstrated that the necessary theoretical tools for a differentiation between monopoly price and any other price on (free) market are absent. We should stress here the concept of free market, *i.e.* the social, voluntary cooperation of people, free from *any* state intervention.

The legal validity, i.e. the legitimacy of suing a producer because he is the single seller of a good, is a very different issue. Rothbard could have very easily dismissed the legal relevance of monopoly price, by simply emphasizing the completely voluntary, non-aggressive character of free market exchanges. However, the arguments developed are useful for analyzing the effects of monopoly privileges, i.e. special privileges given to some producers and defended by the state, on the hampered market.

In a recent article[2], Hans-Hermann Hoppe and Walter Block identify the implicit theoretical error made by those who incriminate the monopolist: property rights on goods' value, and not on physical aspects, which are operational and allow avoiding conflicts[3]. Applying this misleading theory to single seller' case, it follows that the consumer has a sort of right to decide *unilaterally* what quantity should be produced and brought on market, and at what price; from an economic point of view, this is simply impossible, as any consumer would like to buy goods as the lowest price, even a zero price or, why not, to receive gifts. Price determination supposes a least two participants, with inverse valuation of the (two) goods on their value scale. It means that the buyer appreciate, at least *ex ante*, more the goods he wants than the goods he is ready to get rid off (to sell). If the monopolist could be incriminated because he practices a "too high" price, it follows that any seller could be also accused on the same grounds, as for the buyer there is no price too low. From an ethical perspective, this "solution" is tantamount to a partial negation of owner's just property rights.

The economic identification of monopoly price is nevertheless a necessary, but not sufficient condition for its relevance in law[4]. The economic differentiation of monopoly

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[1] Vezi Murray Rothbard, 1993, cap. 10.

[2] „On Property and Exploitation", *International Journal of Value-Based Management*, 15, 2002, p. 225-236.

[3] Armen Alchian, for instance, beliefs also that the defense of property rights is related to the physical attributes of property, and not to its exchange value or some psychological feelings of other people. See „Some Economics of Property Rights", in *Economic Forces at Work*, Liberty Press, Indianapolis, p. 131-132.

[4] Israel Kirzner thinks that the presupposed encroachment upon the consumers' sovereignty – that is what makes the unique owner of resource guilt for – would justify the aggressive intervention of the state. See, for instance: "For that situation—and *only* for that situation—it might indeed be rational for consumers to invoke political power to modify the outcomes forthcoming from the unhampered market." [author' italics] Kirzner, Israel, „Mises and his understanding of the capitalist system", in *Cato Journal*, vol. 19, no. 2 (fall 1999), p. 223, the same idea on p. 224, even if the operational validity of identification of monopoly price is wanting, which Kirzner recognizes. (See n. 5, p. 224): "Nor, it should be emphasized, is the case of monopoly price one that can be empirically identified and observed. Failure to use all the available

price from any other market price would be based on purely non-quantitative criteria. The quantitative dimension of restitution due to the victim(s) would be the result of a competitive legal system, notwithstanding the difficulties involved.

The emphasizing of the absence of operationality, present in Rothbard and Hoppe[1], could mislead us. Other concepts, such as the three components of market rate of interest – the originary interest rate, the entrepreneurial component, and the price premium – are not operational; we cannot identify the dimension of each one simply looking at the market interest rate[2]. The big problem with the monopoly price is that we are unable to give to it a *praxeological* definition, i.e. from this particular perspective we cannot differentiate it from market price. If the operationality would be the only difficulty, we can rely completely on market competitive judges to solve the problem, i.e. to find the acceptable restitution. The same challenge arises when a battery is involved.

On market we – and who exactly? In fact, consumers would be qualified to demand restitution – are not entitled to suit the single owner and seller of a good not primarily because of the non-operationality; but for the absence of an encroachment upon property rights, the consumers are not in reality victims of the producer. We must remind here that – from a libertarian point of view – the use of retributive force is strictly circumscribed to the physical violence against just property.[3]

If the neoclassical theorists desire to apply consequently their own theory of monopoly, a plenty of monopoly privileges are awaiting for resolution. Why to limit the (supposed) negative consequences of monopoly to the private sphere, and not to apply the same theory to state monopoly. Take, for instance, the central bank: its aggressive character[4] is revealed by legal tender law, by monopoly on the issuance of money, by enforcement of the fractional reserve – thus impeding the re-emergence on market of the

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supply of the monopolized resource may simply reflect the monopolist's entrepreneurial judgment that future consumer demand may be strong enough to justify postponing its use to the future. Even physical destruction of part of the supply *might* (admittedly far-fetchedly!) be the manner in which the monopolist is expressing his *own* consumer preferences."

[1] See, for instance, Hans-Hermann Hoppe, „Review of *Man, Economy, and Liberty: Essays in Honor of Murray Rothbard*", in *The Review of Austrian Economics*, 4, 1990, p. 249-263.

[2] See, for instance, Murray Rothbard, *Man, Economy, and State*, p. 613, where he discusses the difference between prexeological concepts and operational concepts. "It might be objected at this point that there are many useful, indeed indispensable, theoretical concepts which cannot be practically isolated in their pure form in the real world. Thus, the interest rate, in practice, is not strictly separable from profits, and the various components of the interest rate are not separable in practice, but they can be separated in analysis. But these concepts *are each definable in terms independent of one another and of the complex reality being investigated.* Thus, the "pure" interest rate may never exist in practice, but the market interest rate is theoretically analyzable into its components: pure interest rate, price-expectation component, risk component. They are so analyzable because each of these components is *definable independently* of the complex market-interest rate and, *moreover, is independently deducible from the axioms of praxeology.*" The monopoly case is different: "In this case, however, there is, as we have seen, *no independent way by which we can define and distinguish a "monopoly price" from a "competitive price."* There is no prior rule available to guide us in framing the distinction." (p. 613)

[3] See Murray Rothbard, *The Ethics of Liberty*, *For a New Liberty*, and Walter Block, „Libertarianism şi libertinism", www.misesromania.org.

[4] See, for instance, Pascal Salin, *Liberalisme*, p. 183.

natural distinction between deposits and credits, without mentioning the effects of the increase in fiat money upon the economy (redistribution, a high probability of distortions in the economic calculation at the inter-temporal level, culminating in business cycle)[1].

Interestingly, the state monopoly is "justified" by other "theories": public goods theory, the necessity of an increase in money supply, for an equilibration of demand and supply, to promote the investments etc.

The privileged producers enjoy advantages, but they cannot be, without a thorough analysis, classified as aggressors. If they pleaded for the privilege, on a contractual basis, implying a private enforcement (roughly "the offensive bribe", in Rothbard's words), for the exclusion of their actual or potential competitors from the market, they would have to pay retaliation. It would be difficult to determine the victims and the retaliation, as their privileges *excluded*, *impeded* people from entering certain domains or offering certain services. The solution would be, in this case, to eliminate completely the monopoly privileges.

Conclusion

The welfare arguments on which is built a neoclassical case against monopoly (as single producer and seller of a good) are wanting. They are based on interpersonal comparisons and aggregation of utility. But even if monopolist on market would counterfactually diminish the satisfaction of their consumers, suing him is not permissible, as he did not initiate violence against, *i.e.* aggress, anybody. Thus, the non-operationality of monopoly price (this was the problem identified by Austrian economists) deals only with the accuracy of a definition. On market, the economic calculation imposed a limit upon the vertical integration by a single firm of two or more production stages.

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[1] For a presentation of the effects of state meddling with money, see Ludwig von Mises, *Human Action*, cap. 19, *Politici economice. Gânduri pentru cei de azi şi cei de mâine; Murray Rothbard, Ce le-a făcut Statul banilor noştri?*, *America's Great Depression, Man, Economy, and State*, www.mises.org and www.misesromania.org.

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ROMANIA: COMPARATIVE ADVANTAGE IN FOREIGN TRADE AND THE ACHIEVEMENT OF A SOLID CATCHING-UP GROWTH IN THE FUTURE

Nicolae Nistorescu[*]

1. Poor economic performance in 90's and great expectations in a prolonged expansion period in the new millennium.

The systemic transformation from centrally planned system to market economy in Romania began 16 years ago. The market–oriented reforms involved a radical change of economic policies. The list of these changes is extremely large but the proposed prescription of systemic transformation has established at least six key policy measures: macroeconomic stabilization; internal liberalization; removal of restrictions on trade and foreign direct investment-the so called external liberalization; privatization of state owned enterprises; development of a new private sector; establishment of a market supportive legal framework.

The outcome of Romania's economic performance during transition remains until now somewhat puzzling. Romania developed an uncommon pattern that wittnessed not only a considerable output decline during the early years of transition(this was the common pattern developed by countries such as Poland, Hungary, Slovak Republic and Slovenia) but also a very severe recession from 1997 to 1999 (Czech Republic is the only country of Central and Eastern Europe that registered an output contraction from 1997 to 1999 but of more moderate proportions). Therefore for Romania we might refer to the existence of a specific W-shaped adjustment way in a sharp contradiction with the existence of a U-shaped adjusment path to reform experienced by other Central and Eastern European countries.

The poor economic performance of the 90s was accompanied by a high volatile inflation rate and by an unemployment rate that followed an evolution of a W-turned upside down.

The first 6 years of the new millenium are witness of the beginning of a period of expansion. The great expectations in a prolonged expansion that will continue in the future are based on the pursuance of a coherent macroeconomic stabilization policy, the existence of a deeper integration in the global economy with a dynamic inflow of foreign investment and a dynamic domestic private sector within a more business friendly environment. Despite these 6 years of renewed economic growth(2000/2005), Romania's GDP index for 2005 compared to the 1989 level was only 103,3 in 2005(1989=100).

2) Foreign trade performance: bright spot or another poor performance

After a dramatic collapse over the 1990-1993 period, Romania's nominal exports of goods began to recover increasing by a steady pace. Taking also into accoount the evolution of commercial services exports, Romania's total nominal exports rose by 174%

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to US dollars 32,6 billion in 2005 as compared to US dollars 11,3 billion in 1989. In this case we may refer without doubt to the existence of a U-shaped evolution of Romania's exports with a tendency to accelerate in the first decade of the new millenium. The import recovery was more rapid and pronounced, with the outcome of an increasing foreign trade deficit.

As compared with the GDP growth, Romania's foreigh trade performance may be considered a bright spot in the landscape of the national economy. The outcome is an increased integration of Romania s economy with the global economy.

Romania's integration with the global economy

Years	1990	2004
Merchandise trade (% of GDP)	32,8	76,7
Trade in services (% of GDP)	3,6	10,2
Foreign direct investments (% of GDP)	0,0	7,4

Source: World Development Report 2006

Before the political events at the end of December 1989, Romania's foreign trade policy towards the rest of the world, with the exception of CMEA countries (Council of Mutual Economic Assistance), may be defined as a high protectionistic one. At the same time inward foreign investment(FDI) was practically limited to joint ventures, with foreigners restricted to holding a minority share in enterprises.

Over the transition period the main change of Romania's foreign trade strategy resulted from applying for EU membership with free trade agreements concluded with EU(on an asymetric basis) and with other EU accession countries of Central and Eastern Europe(on an symetric basis). At the same time, Romania promoted an extensive foreign trade liberalization and followed its policy of participation in the multilateral system with an active role in WTO multilateral negociations.

All these remarkable changes including a reformed domestic price system that signaled relative factors scarcity have helped to bring the geographical and commodity composition of Romania's foreign trade more in line with its specific productive resources and comparative advantage.

To analyze the change suffered by Romania's commodity exports in the time period since December 1989 political events, we may use the modern classification that divides the traded products in five main categories according to the relative process of factors, different factor intensity of the industrial sectors and the relative endowment with factors:

a) Labour-intensive products
b) Resource-intensive products
c) Capital-intensive products

d) Schumpeter mobile industries: these are research-intensive industries where the research units are independent of the production process. In this case the companies are mobile on a worldwide basis when they decide where to locate their production units in pursuit of maximum efficiency and profit.

e) Schumpeter immobile industries: the so called immobile Schumpeter industries are the sectors where the border between the research and the production activities is difficult to define. Semiconductors represent such an immobile industry as compared with personal computers and components that are mobile.

As it might be expected, Romania's former specialization based on resource intensive and Schumpeter resarch intensive immobile industries was not more sustainable. These two sectors registered a massive decline of their share in Romania' s commodity trade. On the other side, taking into account the relative prices of factors and different factor intensity, Romania's comparative advantage in a first stage is given by the labour intensive production because labour force is abundant and the wages are low as compared with the capital factor that remains scarce and expensive. No wonder at all that the most impressive change in the last decade was the result of a rapid increase of the share of labour-intensive industries in Romanian total exports.

Trends of the main sectors in Romanian foreign trade(% share in total Romanian exports)

Sectors	1989	1998	2005	Share trend 1989/2005
Labour intensive products	14.1	35.6	28.5	increase
Capital intensive products	10.6	10.2	8.8	decrease
Resource intensive products	32.7	23.5	23.8	decrease
Schumpeter immobile industries	21.7	8.0	12.1	decrease
Schumpeter mobile industries	10.4	5.9	9.8	stagnation

Romania's exports and foreign trade may be considered a bright spot of the economy especially taking into account the powerful increase registered in 2001/2005. But if someone compares Romania's achievements in foreign trade with the trade development of other EU accession countries, he or she might feel a big dissappointment.

Merchandise exports and imports of selected EU accession countries, 1989-2004(billion US dollars)

Exports

Country	**1989**	**2000**	**2004**	**Index 1989=100**
Romania	10.490	10.367	23.485	224
Czech a. Slovak R.	14.450	40.993	96.032	665
Poland	13.470	31.651	74.838	556
Hungary	9.670	28.092	54.759	566

Imports

Country	**1989**	**2000**	**2004**	**Index 1989=100**
Romania	8.435	13.055	32.664	387
Czech a. Slovak R.	14.260	44.843	98.803	693
Poland	10.270	48.940	89.607	873
Hungary	8.865	32.080	59.225	668

Source: Economic Survey, UN EEC Europe, different years

The other accession countries(Czech Republic and Slovak Republic, Poland and Hungary) registered an explosion of their foreign trade relations. The nominal export index for Romania in 2004(1989=100) represented only 224 as compared with 665 for Czech and Slovak Republics, 566 for Hungary and 556 for Poland.

3)Romania as a catching-up country

The catching-up growth is defined as a process whereby an economy with a lower level of technology and income(the follower) narrows the income gap with the high technology and richer countries(the leader) through a process of technological diffusion and capital flows from leader to follower. In his categorization of countries according to growth mechanism, Jeffrey D. Sachs included Romania in a group of 23 countries(such as Bulgaria, China, Hungary, Indonesia, Malayesia, Mexico, Poland, Portugal, Spain, Thailand and Turkey) defined as catching-up economies. Romania was classified in this category because its exports of manufactures in the machinery and transport sectors (SITC 7) plus the miscellaneous manufactures sectors (SITC 8) accounted for at least five percent of GNP in 1995.

For Romania, the quality and technology catching-up may occur by three different means:

a) Importation of machinery and equipment in which new technologies are embodied. But to create the foreign currency funds necessary to import, Romania must apply a successful export promotion policy that will focus especially on the sectors with a comparative advantage. These are not only the traditionally labour-intensive products such as furniture, clothing, footwear(with an increased attention to high-priced items of a more innovative and fashion-oriented content) but also products of ecological agriculture or IT services.

b) Attraction of foreign direct investment in which the multinational companies will use technologies that are not available in the recipient country, respectively Romania. The Schumpeter mobile industries remain as a main opportunity(such as equipment for electrical production and distribution) taking into account the mobility of such production units and Romania's superior endowment with human capital, especially with scientific and technical skills as compared to other developing countries of Asia or Latin America.

c) Licensing of technologies especially those under patent.

All these ways are expected to create a process of quality and technology catching-up narrowing the gap between the quality of Romanian exported and imported products and the gap between the quality for Romanian exports relative to its competitors in the global market.

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LABOR MARKET AND EU ENLARGEMENT: IS THERE A REAL THREAT FOR EU – 15?

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Global competition and the need for reforms in the EU

The general implications of globalization as well as those resulting from 2004 and 2007 enlargements have forced EU to think seriously about approaching issues related to rigidity and stagnation in the major EU economies. The problems are well known and recognized. Their solution implies anyway to accept a number of liberal measures characterized by competitive labor markets and mobile capital. In this context, during the British presidency of the second half of 2005 Tony Blair mentioned clearly the areas which needed reform (although he was not very popular because of that): labor markets, energy dependency, innovation, falling demographics, and the need for balance between work and lifestyle[1].

In fact it seems that the citizens of EU-15 resent above all the idea of competition be it due to globalization or to enlargement. EU-15 has a labor force used to the comfortable benefits of the welfare state and quite unhappy to change or give up any of that. If we compare the 35 hours working week in France with the 7 days a week work in China we can quite easily understand why competition due to globalization is an ugly world for many Europeans.

To a less extent the same reaction holds true for the position vis-à-vis the new EU member states from Central and Eastern Europe. As someone noted, "Western Europe used to be afraid of invading Warsaw Pact troops. Now Western Europe fear an invasion of Polish plumbers!"

In 2004, when 10 countries have joined the European Union 73 million new EU citizens acquired the right to settle in all other EU member states. Anyway they did not get at the same time full access to the EU labor market because free movement of workers has been temporarily postponed for up to seven years.

Immediately after the 2004 enlargement 12 out of the 15 "old" EU member states restricted access to their labor markets for citizens of new EU member states. During the period 2004-2006 Ireland, Sweden and the United Kingdom did not implement such restrictions, while countries like Austria, Italy and the Netherlands offered labor permits on a quota base.

In 2006 Finland, Greece, Portugal and Spain finally decided to give EU citizens from Central Europe and the Baltic States (EU8) full access to their labor markets. In 2007 the Netherlands are likely to follow their example.

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[1] Dale (2005).

It is interesting to note that, as result of their option, the United Kingdom and Ireland have experienced robust economic growth. There migrant labor from new EU member states has played a vital role in achieving this result.[1]

By October 2006, less than 3 months before the EU enlargement with Romania and Bulgaria, new debates emerged the EU-15 media on the risks for their labor market associated with an open labor policy. For instance, the British government is planning to restrict the numbers and categories of workers from Bulgaria and Romania who wish to come to the U.K., even after those two nations join the European Union on January 1, 2007.

This type of mixed reactions asks for a more in-depth analysis. Which is in fact the real problem in the EU-15 labor market ? And, more generally, which is the problem with the EU-15 economy in the global context ?

EU's competitivity dilemma: to reform or not to reform ?

The difficulties experienced by the EU-15 member states in the context of economic global competition require flexibility and reform in response to the fast changes determined by globalization. The EU's dilemma is: to reform and become more competitive internationally but in this way to affect the welfare state and generate negative reactions from voters or to postpone or soften the required reforms and to further lose ground in the global competition game ?

Up to now the second option prevailed and attempts to do some serious reforms (like in Germany or France) determined quite serious negative social reactions.

In fact, if we reduce globalization to competition, then EU has to reduce costs in order to remain competitive and, in order to do that there are, among others, two ways of action:

- increase the use of immigrants (in a US style). This is not new, the use of immigrants was used for instance by West Germany some decades ago. Starting from the early 1960s and well into the 1970s, large numbers of Turkish nationals migrated to Western European countries, particularly West Germany. This phenomenon started with an agreement signed by the Turkish and West German governments in 1961. The agreement coincided with a West German economic boom which lasted until the economic downturn in Western Europe that arrived with the oil crisis of 1973[2]. Interesting to note, in 2006, many Western European countries started to think about a selective acceptance of foreign labor based on skills and qualifications.
- Enlarge towards Central and Eastern Europe in order to achieve economies of scale and a regulated access to cheap labor.

From a political perspective it is obvious that the second approach is much more favorable from all points of view. Among other things, the second solution solves not only labor issues but also boosts exports and allow access to a significant amount of resources. Even more, enlargement could be also supporting the needed reform of EU institutions just because 27 member states require new institutional and organizational rules and even the most conservative members could not deny this reality.

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[1] Zackrisson (2006).
[2] Kirisci (2006).

EU enlargement as an acceptable reform that improves competitivity

Estimates calculated after the first two years showed that the enlargement has had a positive economic impact on all EU member states, the gains being obtained mostly in trade and investment. Some EU countries, in particular Austria and Germany, have done particularly well out of exporting to Central and Eastern Europe’s fast-growing markets. And many West

European companies have profited substantially from investing in retail, telecoms, energy or the media in the new EU member states.

At the same time the EU enlargement towards Eastern Europe improved the region's competitiveness in a globalized world. The price of enlargement was very convenient as it amounted to less than 0.1 % of the EU's combined GDP.

Some analysts consider anyway that the main bonus of the enlargement is not the positive economic impact but rather the fact that the enlargement has forced EU's economy to start making the reforms required to maintain competitiveness in a globalized world. From this perspective the enlargement has been EU's "trial run" for globalization.

The rationale for this explanation is that the economic integration between Western and Eastern countries began at a time when global competition put an increasing pressure on the EU-15. Companies from EU-15 responded by outsourcing labor intensive production to low-wage areas in Eastern and Central European countries. This happened not only due to the geographical location of the Eastern European countries, but also due to the fact that the enlargement process continued to diminish the differences between the business environments in the old and new EU countries.

Enlargement, labor movement within EU and economic growth: the need for a better understanding

In fact outsourcing of production from Western to Eastern Europe has enabled more Western European companies to maintain their competitiveness. Enlargement has determined a new European division of labor in which the lost factory jobs in the Western part were replaced by new jobs in development, research, and design[1].

We can quote here some foreign investors in Romania that said that without relocating their operation to the East they would be out of business due to global competition. At the same time German car companies, Swedish mobile phone producers and Italian fashion houses have reacted to heightened global competition by shifting some production processes into Eastern Europe, where wages are cheaper.

This changes forced the European companies to meet the challenges of increased international competition, to streamline their businesses, and to make the hard, but necessary decisions. In this way enlargement represented a true training room for globalization.

From an economic point of view the enlargement towards Central and Eastern Europe may be exactly what the EU needs to return to higher growth. The new members are too small to act as an economic engine for the slow growth euro zone. However, the availability of a large pool of low-cost, highly skilled workers at their doorstep has helped

[1] Jensen and Christensen (2006).

West European companies to better cope with globalization. And it has put pressure on governments in the old EU to make their labor markets more flexible and their business environments more attractive[1].

The next step is more difficult: the political system in the EU should adapt to the changes that took place in economic areas.

For EU enlargement can be a successful policy tool only if it decides to deal with the misperceptions that fuel public opposition to enlargement. EU decision makers have to explain how enlargement has benefited both Western and Eastern Europe.

EU officials have to explain that globalization would have forced Western Europe to change anyway, and that enlargement has helped many West European companies to stay competitive. At the same time Western European politicians should stop exploiting fears of an invasion of Eastern European low cost immigrants and instead pursue the kind of reforms that would allow their economies to benefit from a larger participation of East European workers. A key point is to understand that reforms are to be done not because of enlargement but because of globalization.

The fact that this public awareness campaign on the benefits of enlargement to Western Europe is far from being effective is well understood in Romania where one can read in the pre-accession period until January 1, 2007 almost daily about negative reactions in the old member states on the possibility of waves of low cost labor from the new member states invading the labor market in Great Britain, Germany or France.

And yet the reality is just the opposite. A recent survey carried out in 2006 by the Caixa Catalunya Savings Bank (Spain) showed that the GDP per capita in Spain in the past 10 years (1995 – 2005) would have been decreasing by 0.6 % without the 3 million immigrants, many of them from Central and Eastern Europe. In fact, these immigrants contributed themselves with about 2.6 % of each year's GDP growth in Spain. During the decade 1995 – 2005 immigration was responsible for more than 50 % of employment growth in Spain.

At the same time, without immigration, per capita GDP growth in Ireland would have dropped from 5.9 % a year to 1.1 %, and in France, from 1.6 % a year to 0.3 %. In most European countries, economic activity would have posted negative rates without the labor of foreign nationals, particularly in Germany (-1.5 % a year) and Italy (-1.2 % a year)[2].

The Caixa Catalunya study showed that the contribution of immigrants to economic growth in the EU as a whole has averaged 2 % a year over the last 10 years. Without their presence, GDP growth per person would have fallen to -0.2 percent a year.

The same survey showed that the GDP per capita in many European Union countries like Great Britain, Germany or Sweden would have decreased without the cheap labor from the Central and Eastern Europe.

The fact that EU is still far from a pragmatic approach to globalization is also supported by the proposal made by the European Commission in 2005 for the establishment of a Globalization Adjustment Fund, which will give an average of $10,500 each to approximately 50,000 workers a year who lose their jobs because of competition.

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[1] Barysch (2006).

[2] Alfieri (2006).

The proposal of this Fund is a proof that subsidies are proposed a lot quicker than reform[1].

This concept of a Globalization Adjustment Fund is not tied to education, research and development, and the other preconditions necessary for the creation of job growth. It is not clear how this Fund will compensate when a member state loses jobs because of competition from a neighboring member state. With corporate tax rates ranging from single figures to nearly 50% within the EU25, competition among EU member states may prove more dangerous than China or India.

What would be the solution ? Western Europe needs to improve its entrepreneurship, innovation and dynamism, not protectionism or social protection. And in this respect, maybe once again, EU may look to the US model.

The United States has faced the same economic pressures as the rest of the world, and its tax-cutting, low-regulating, high-tech investment strategies have thus reaped the rewards of global growth. It is easier to get fired in the United States, but it is also a lot easier to find another job relatively quickly.

This economic mobility has seen unprecedented social mobility in all quarters of society, most notably among immigrants and young people.

For EU a combination of liberal reforms with large public awareness campaigns related to the benefits of enlargement towards Central and Eastern Europe would definitely help in turning globalization from a menace to what it really is: a giant opportunity.

This is why we consider that after 2004 and 2007 enlargements EU would be better if accepts a deepening of the liberalization of its markets, particularly of the labor market, instead of being afraid of it.

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[1] McNamara (2006).

THE MONETARY OUTLOOK BY 2025 – 2030

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The globalization and the worldwide regionalization phenomona which also bring about a simplification of the usages, the rules, the instruments, the legislation as well as that of the behaviour of states and economic agents could not leave untouched the currencies of the more than 200 independent countries, although the minting of such currencies has always been the „royal" prerogative and the very symbol of the sovereignity of a state.

It is very well known that algonside the flag and the national hymn, a currency contributes to the development of a collective identity and to the feeling of belonging to a certain community. This is exactly what is now happening to the citizens of the European Union after the adoption of the euro who, over the course of a generation, will relate to only these three new symbols which will mark their consciousness and their „European" identity.

Already the great number of currencies that exist throughout the world imply additional costs for the international business people and for the investors, but also for the central banks of those states that are confronted with major monetary crisis. We only need to remind ourselves of the most recent of these: the „Mexican crisis", the „Asian crisis", the „Russian crisis", the „Brazilian crisis", the „Argentinian crisis", which had a global impact and gave a good scare to international financial organisms as well as to the major western governments.

For a currency to have a minimum of external credibility, the minting country must accept the VIIIth article of the IMF chart. This article stipulates the undertaking of certain external obligations by the IMF member country. Essentially, the sections 2(a) and 3 of the article prohibit the member countries to apply restrictions to payments afferent to current international tranzactions, to refer to multiple exchange rates or to discriminatory monetary dispositions, without the approval of the IMF. Section 4 of the VIIIth article stipulates that member countries must, under certain circumstances, buy their assets in their own currency possesed by other member countries, assests resulted from current international tranzactions.

By 2006, 150 countries had adopted the VIIIth article of the IMF chart. The first countries to adopt this article were: USA (1946), Mexico (1946), Panama (1946), and Guatemala (1947). The European countries adopted this article much later, as follows:

- Austria - 1962
- Belgium – 1961
- Bulgaria – 1998
- Czech Republic – 1995
- Croatia – 1995
- Denmark – 1967
- Switzerland – 1992
- Finland – 1979

[*] Eugen Andreescu, Ph.D, The Institute of World Economy, Bucharest.

- France – 1961
- Georgia – 1996
- Germany- 1961
- Greece – 1992
- Irland – 1961
- Island – 1983
- Italy – 1961
- Republic of Latvia – 1994
- Lithuania – 1994
- Great Britain – 1961
- Malta – 1994
- Moldova – 1995
- Norway– 1967
- The Netherlands – 1961
- Poland– 1995
- Portugal – 1988
- ROMANIA – 1998
- Russia – 1996
- Slovakia – 1995
- Slovenia – 1995
- Sweden – 1961
- Spain – 1986
- Turkey – 1990
- Ukraine – 1996
- Hungary – 1996

Surprisingly, Switzerland, whose currency had a great credibility at the international level after the second world war, adopted the VIIIth article of the IMF chart as late as 1992(!). Also extremely late to adopt this article were a certain number of the E.U. states, such as: Portugal (1988), Spain (1986) and Greece (1992), in comparison with the other E.U. member states which adopted this article in 1961 or 1967.

One of the most obvious phenomena which was to mark the first half of the XXIth century was the severe decrease of the existing currencies in the world, small and medium-sized countried being forced into gradually giving up their onw currencies and into adopting that of the dominant country of the integrationis block to which the country in question belonged.

In the opinion of the author of this paper, the monetary outlook for 2025 – 2030 will have the following configuration:

Europe

On the old continent will continue to survive several currencies belonging to supernational structures (such as the E.U or the C.I.S.) but also to a certain number of big countries, middle-sized and also smaller ones. According to their importance, these will be:

The euro – This is already the most important currency of the European continent and ranking second at international level, after the American dollar. The replacement of the ECU, as from the 1st of January 1999 (at a parity of 1:1) on which date the irrevocable exchange rates were fixed between the euro and the 12 currencies of the E.U. member states that decided to adopt the single European currency. The euro was launched on the market in a material form on the 1st of January 2002, when it replaced the currencies of those countries that decided to tie their destinies to that of the single currency. After the accession of 10 countries on the 1st of May 2004, the European Union became an economic, commercial and monetary block comparable to the United States. While the enlargement process of the E.U. will be able to continue for at least one decade from now, one must mention the existing premises for this entity to become the first economic power in the world. The euro is currently used as a monetary anchor or reference currency in 36 states, while in 18 others, the reference is based on a monetary basket that includes the euro.

In the year of the adoption of the euro, the precentage of the most important currencies in the international exports were: (%)

	1980	1999
American dollar	56,4	52,0
Deutsche mark	13,6	13,2
Sterling pound	6,5	5,4
French frank	6,2	5,5
Dutch gulden	2,6	2,8
Italian lira	2,2	3,3
Japanese yen	2,1	4,7

Source: The European Commission, D.G. III, 1999.

The percentage of the major currencies in the total of official rezerves of the central banks of the world in 1999 was (%):

	1973	1999
American dollar	6,1	63,7
Deutsche mark	7,1	14,0
Japanese yen	0,1	6,2
Italian lira	5,6	3,5
French frank	1,1	1,6
Dutch gulden	0,5	0,4
Swiss frank	1,4	0,8
Other currencies	8,1	9,8

Source: IMF, Annual Report, 2000.

As one can notice from the two tables above, after the fall of the Bretton Woods system, dollar's share in world trade and especially in world foreign exchange reserves has declined significantly (from 76,1% to 63,7%), and this tendency has strengthened after the advent of euro. Between 1999-2005, the share of euro in world reserves increased from 15% to 20%. The share of dollar has corespondingly declined to 58%.

The popularity of european currency is increasing, and it is possible that until 2025 no less than 40 E.U. member countries shall adopt it as a common currency.

From the 150 currency regimes which are considered completely liberalized by the IMF, 54 are related in one way or another to euro. Euro is used as monetary anchor or reference currency by 36 countries, while other 18 states have their currency pegged to a currency basket which includes euro.

According to a ECB study, from the 12 candidate countries to European Union, only the Czech Rpublic, Poland and Turkey do not use euro in their exchange rate policy. In Balkan area, euro is used as monetary anchor by Croatia, Republic of Macedonia and Serbia. Bosnia has a currency board based on euro, and Kosovo and Muntenegru use euro as their „national currency". The influence of euro has extended beyond the european continent in northern and eastern Africa, in the french-speaking countries. In that region, have adopted a fixed exchange rate against euro.

For the first time in the last 50 years, the hegemony of the dollar is seriously shaking. The advent of euro and the increasing (more than expected) demand for euro has produced a significant shift in the world monetary landscape. It has determined a change in the international monetary system, from a three-poles structure (dollar-mark-yen) which has marked the last decades to a bi-poles one (dollar-euro), covering 80% of the global financial transactions. The great powers (Japan, China, Russia) have replaced their dollar reserves with euros – a trend that will continue in the next decades.

The sterling pound was the most important currency in the XIX century, and one of the most important in the XX century (6.5% of world exports are denominated in pounds, and 4% of world exchange reserves are representet by british lira. Given that a significant number of countries are still using the british currency and the London „banking city" holds a privileged position (second in the world after New York), it is hard to imagine that Great Britain will change its lira for euro, even if this country is member of the European Union. As it is widely known, Great Britain and Denmark have refused to join EMU, and, implicitely, to accept euro as common currency.

Given the conservatorist tradition of Great Britain and the position of its banking center (which contributes 5% to british GDP), it is difficult to expect a day will come when Great Britain will say „Yes" to the single currency, by surrendering its privileged position to Germany.

Therefore, the refuse of these three countries (Great Britain, Denmark and Sweden) to join EMU has weaknessed the EU cohesion. At the present, euro can still be considered a tiny currency as long as important members of the EU have refused to accept it, and their position could be „contagious" for the future EU members.

Swiss franc – it is one of the most sound currency of the world (it is covered by gold in 80%), and Swetzerland is viewd as a country – paradise for all kind of fortunes accumulated in a more or less honest manner, the capital invested here being considered „safe" because of the famous bank secret. Although it has 7.2 millions of inhabitants, GDP per capita (around 35000 dollars) is the highest among european countries and the quality of life is very good. The income derived from tourism amounts to around 10 billions dollars. Despite huge pressure from US and European Union for changing its legislation concerning banking accounts, Swetzerland managed to preserve its legislation concerning „banking secret", the key to huge amount of money that convey this country year by year. The banking industry represent is the second industry as importance in the formation of national GDP, and the most profitable of all.

Taking into account the fact that about 5,5 % of international trade is denominated in Swiss franks, the Swiss currency is one with a future which we will surely find in the 2030s…

The Russian ruble is the currency of the second military power of the world even if its economy has been experiencing a freefall after the disintegration of the U.S.S.R.. The depositing country of the most important oil, gas and strategic raw materials resources in Europe, Russia represents the center around which gravitate the countries that have been regrouped in the CIS, a community of independent states, based, in general, upon economic, social, linguistic and even political and military interests. Taking into account these arguments, I consider that the Russian ruble is one of those currencies which we will find 30 years from now, having even a greater importance than today…

North and South America

North and South America will be the continent which will be under the “dominance” of the American dollar, alongside which will manage to survive the Canadian dollar, the Brazilian real, the Argentinean peso and the Mexican peso. The rest of the currencies will bow to the above-mentioned currencies depending on their degree of economic and political integration with their “bigger” neighbours.

Asia

Asia is the continent where at least four currencies will survive: the Japanese yen, the Chinese renminbi, the Indian rupee and the Pakistani rupee. The currencies of important countries such as Korea, Indonesia and Hong Kong will also continue to exist. The most important Asian currency will continue to be the Japanese yen, but the renminbi, China’s currency, could be the great surprise of the 2030s.

Conclusion

- The monetary outlook by 2025-2030 draught up here represents the point of view of the author who assumes the entire responsibility of this vision which will be confirmed or infirmed in the future decades…
- Alongside this point of view, I would like to recall certain ideas that the American Jim Rogers (co-founder of the Quantum Fund together with George Soros) presented in an interview for the “Le Figaro Economie” in February of 2004:

1. “I am extremely pessimistic when it comes to the evolution of the American dollar. On the short term, it could recover but it will experience a decline due to the force of circumstances and will lose its rank as a reference and reserve currency at international level. The US is a very indebted country (about 7000 billion dollars) towards the rest of the rest of the world. Today, the external debt rises by 1000 billion dollars every 20 months, a rhythm that is currently unstoppable.”
2. “The Chinese renminbi is the only currency that seems capable to replace the American dollar one day but, presently, it is not convertible (the yuan will became totally

convertible in 5-6 years when the greatest part of the restrictions that are applied to the transfer of capital will be removed)”.

3. I do not believe euro will survive more than a few decades (!). Why? First, in the past no currency union has last more than a few decades. Then, euro has been conceived by politicians who wanted a sound currency. Today, politicians who rule Europe do not pay attention to euro anymore. The Stability Pact is breaking down and we may be confident about the fact that all future arrangements will not be observed. It is possible that one day a member country will shut the door in front of euro. Euroland is rich, as well populated as US and has an excedent in its trade account. I would like euro to last, because we need a substitute for dollar. But today, I do not think so...”

4. China will be the country of the XXI century... In the long run, I am more optimistic about the prospects of yuan than those of the dollar” (!)

Robert Mundell (the spiritual father of euro): Will there be a single world country?

- No, each region will preserve its currency... For the international trade there will be a common unit of account based on a basket including US dollar, euro and yen. How will this be achieved?
- We may take the example of euro. In the first stage, there will be a common inflation goal. Then, a joint comitee will set the interest rate. The exchange rate stability will be acieved through interventions...

Japan, China, Taiwan and Hong Kong hold half of the world foreign exchange reserves. These are represented by dollars (80%) and euros (18%). In the future, these countries wish to increase the amount of euro in their reserves to 30%.

- the equilibrium exchange rate might fluctuate around 1.10dollars/euro.
- a strong economy stimulates the demand for its currency to increase.

„US have the ability to manipulate the dollar exchange rate so that to adapt its value to national considerations. EU laks so far the means to do the same thing.

Fred Bergsten (US Treasury): What will be the role of euro and when will it happen?

- „Very important and very soon. Given the intrinsec advantages of EU’s economy, it will take 5-10 years for euro to enjoy a similar position to that of the dollar.