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CUPRINS

I. CREȘTEREA ECONOMICĂ – RESURSE ALE DINAMIZĂRII

Șimon Ilie, <i>Adoptarea euro în România</i>	11
Negruș Mariana, <i>Modernizarea și internaționalizarea activității bancare islamice</i>	17
Catrina Ion Lucian, <i>Convergența nominală în România post-integrare</i>	27
Gurgu Elena, <i>Reabilitarea economică în țările UE din centrul și estul Europei</i> ...	35

II. ADOPTAREA EURO – ȚINTĂ OSCILANTĂ

Vasilescu Ruxandra, <i>Generația Y din România : Cum pregătim studenții de azi pentru piața muncii de mâine</i>	47
Ionescu Luminița, <i>Fraudă, corupție, în sectorul privat și calitatea controlului intern</i>	55
Zorzoliu Raluca, <i>Impactul crizei asupra economiei românești în comparație cu țările UE</i>	63

III. ANALIZE CANTITATIVE ALE UNOR VARIABLE ECONOMICE

Proto Araceli N., Costea Carmen, <i>Abordarea MAS la prospectarea politică și analiza alianței</i>	73
Eisenstat Eric, Epure Manuela, Gray Patrick Francis, <i>Știința economică a măsurării calității vieții prin metoda standard a jocului</i>	81
Bălan Mariana, <i>Angajarea tineretului pe piața românească a muncii în contextul actualei crize financiare</i>	101
Vlad Cătălina, Pistol Luminița, Ungureanu Gabriela, <i>Tendențele României în evoluția sistemului de lohn</i>	113
Băluță Aurelian Virgil, <i>Testarea componentelor teoriei Rothbard în cadrul sistemului informațional actual</i>	121
Bucea-Manea-Țoniș Rocsana, <i>Soluții omniprezente de inteligență în afaceri</i>	127

IV. FACTORII SOCIAL-POLITICI ȘI DE MEDIU ÎN PROCESUL DEZVOLTĂRII

Bran Florina, Manea Gheorghe, <i>Sărăcie – fatalitate sau circumstanță? Principiul „take-off” din sărăcie</i>	137
Chirimbu Sebastian, Barbu-Chirimbu Adina, <i>Observații asupra bunăstării sociale și economice în context european</i>	145

Epure Manuela, Dinu Cristina, <i>Puterea mesajului – cheia succesului în campania de marketing social. O analiză a marketingului social în România</i>	151
Mihalache Silvia-Ștefania, <i>CSR – un instrument de marketing?</i>	159
Rădulescu Carmen Valentina, Ioan Ildiko, <i>Calitatea aerului în România. Principalele emisii poluante și posibilități de finanțare pentru reducerea emisiilor</i>	165

Recenzii

Wells David, <i>Errornomics – De ce economia non-eterodoxă va fi întotdeauna o pseudo-știință ideologică periculoasă și ce se poate face în acest sens cu ajutorul câtorva sugestii pentru un mai bun și mai eficient model</i>	177
Marsh David, <i>EURO – politica noii monede globale</i> (Lazar Isadora)	185

CONTENTS

I. ECONOMIC GROWTH – RESOURCES OF DYNAMIZATION

Șimon Ilie, <i>Adopting the EURO in Romania</i>	11
Negruș Mariana, <i>Update and internationalization of the Islamic banking activity</i>	17
Catrina Ion Lucian, <i>Nominal convergence in post-accession Romania</i>	27
Gurgu Elena, <i>The economic recovery in the Central and Eastern European EU countries</i>	35

II. ADOPTING THE EURO – AN OSCILLATING TARGET

Vasilescu Ruxandra, <i>The Romanian generation y: Preparing today's students for tomorrow's job market</i>	47
Ionescu Luminița, <i>Fraud, corruption in the private sector and internal control quality</i>	55
Zorzolui Raluca, <i>Crisis impact on the Romanian economy compared to European Union countries</i>	63

III. QUALITATIVE ANALYSIS OF CERTAIN ECONOMIC VARIABLES

Proto Araceli N., Costea Carmen, <i>MAS approach to political prospection and alliance analysis</i>	73
Eisenstat Eric, Epure Manuela, Gray Patrick Francis, <i>The economics of measuring quality of life by the standard gamble method</i>	81
Bălan Mariana, <i>Youth employment on the Romanian labour market in the context of the current economic and financial crisis</i>	101
Vlad Cătălina, Pistol Luminița, Ungureanu Gabriela, <i>Romania's trends in lohn system evolution</i>	113
Băluță Aurelian Virgil, <i>Testing components of Rothbard's theory with the current information system</i>	121
Bucea-Manea-Țoniș Rocsana, <i>Pervasive business intelligence solutions</i>	127

IV. SOCIAL, POLITICAL AND ENVIRONMENTAL FACTORS IN THE PROCESS OF DEVELOPMENT

Bran Florina, Manea Gheorghe, <i>Poverty – Fatality or circumstance? The principle of “take-off” from poverty</i>	137
Chirimbu Sebastian, Barbu-Chirimbu Adina, <i>Observations on social and economic welfare in the European context</i>	145

Epure Manuela, Dinu Cristina, <i>The power of the message – the key to success in social marketing campaign. An analysis of social marketing in Romania</i>	151
Mihalache Silvia-Ştefania, <i>CSR – A marketing tool?</i>	159
Rădulescu Carmen Valentina, Ioan Ildiko, <i>Air quality in Romania. Main pollutant emissions and financing possibilities for emission reduction</i>	165

Book reviews

Wells David, <i>Errornomics – Why mainstream economics will always be a dangerously ideological pseudo-science & what can be done about it with some suggestions for a better, more scientific model</i>	177
Marsh David, <i>The EURO – The Politics of the New Global Currency</i> (Lazar Isadora)	185

TABLE DES MATIERES

I. LA CROISSANCE ÉCONOMIQUE – RESOURCES DE LA DINAMISATION

Șimon Ilie, <i>L'adoption de l'EURO en Roumanie</i>	11
Negruș Mariana, <i>La modernisation et l'internationalisation de l'activité bancaire islamique</i>	17
Catrina Ion Lucian, <i>La convergence nominale en Roumanie post-intégration</i>	27
Gurgu Elena, <i>La réhabilitation économique dans les pays UE centraux et east-européens</i>	35

II. L'ADOPTION DE L'EURO, UN CIBLE FLUCTUANT

Vasilescu Ruxandra, <i>La génération Y roumaine: l'instruction des étudiants d'aujourd'hui pour le marché de l'emploi de demain</i>	47
Ionescu Luminița, <i>La fraude, la corruption dans le secteur privé et la qualité du contrôle interne</i>	55
Zorzoliu Raluca, <i>L'impact de la crise sur l'économie roumaine par rapport aux pays de l'UE</i>	63

III. ANALYSES QUANTITATIVES DE CERTAINES VARIABLES ÉCONOMIQUES

Proto Araceli N., Costea Carmen, <i>L'approche MAS a la prospection politique et l'analyse de l'alliance</i>	73
Eisenstat Eric, Epure Manuela, Gray Patrick Francis, <i>La science économique de mesurer la qualité de la vie par la méthode standard du jeu</i>	81
Bălan Mariana, <i>L'emploi des jeunes sur le marché roumain dans le contexte de la crise économique et financière actuelle</i>	101
Vlad Cătălina, Pistol Luminița, Ungureanu Gabriela, <i>Les tendances de l'évolution du système lohn en Roumanie</i>	113
Băluță Aurelian Virgil, <i>Composants du test de la théorie de Rothbard avec le système informationnel actuel</i>	121
Bucea-Manea-Țoniș Rocșana, <i>Les solutions omniprésents de l'intelligence dans les affaires</i>	127

IV. FACTEURS SOCIO-POLITIQUES ET D'ENVIRONNEMENT DANS LE PROCESSUS DE DÉVELOPPEMENT

Bran Florina, Manea Gheorghe, <i>La pauvreté, fatalité ou circonstance? Le principe du "take-off" de la pauvreté</i>	137
Chirimbu Sebastian, Barbu-Chirimbu Adina, <i>Observations sur le bien-etre social et économique dans le contexte européen</i>	145
Epure Manuela, Dinu Cristina, <i>La force du message, la clés du succes dans la campagne de marketing social, une analyse de marketing social en Roumanie</i>	151
Mihalache Silvia-Ştefania, <i>CSR – Un instrument de marketing?</i>	159
Rădulescu Carmen Valentina, Ioan Ildiko, <i>La qualité de l'air en Roumanie. Les principaux polluants et possibilités de financements pour la réduction d'émission</i>	165

Comptes-rendus

Wells David, <i>Errornomics- Pourquoi l'économie non-éthérodexe sera toujours une pseudo-science idéologique dangereuse et que peut-on faire dans ce sens a l'aide de quelques suggestions pour un modele meilleur et plus efficace</i>	177
Marsh David, <i>L'EURO, La politique de la nouvelle monnaie globale (Lazar Isadora)</i>	165

**I. ECONOMIC GROWTH –
RESOURCES
OF DYNAMIZATION**

ADOPTING THE EURO CURRENCY

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Abstract

This paper addresses the adoption of the Euro currency in 2014, as estimated in the National Programme. Based on the convergence criteria analysis on the current national background, we can foresee an earlier monetary integration.

Key-words: *recession, convergence criteria, Euro adoption, Romania*

JEL Classification: G₀₁, G₁₈

1. Romania adopting the Euro coin in 2012

Romania's accession to the European Union on 1 January 2007, following the remarkable economic progress taking shape in 2000, probably determines the governor of the Romanian National Bank (BNR) to launch a prospective theory – within a regional meeting on the economic environment from May 2007 – regarding the introduction of the Euro currency in 2012, two years earlier than estimated in the National Programme.

What happens meanwhile?

Romania has a rather tight, export-oriented economy, representing approximately 1% of the gross domestic product of the European Union. The external shocks – whether positive or negative – and the economic crisis started in the USA at the end of 2007, subsequently covering other countries as well, especially in Europe, have seriously impacted the national economy. Therefore, after a 2 to 3 year recession, the USA and other developed states find their way to the economic recovery in 2010. This leads to the rejuvenation of the economic sector in Romania as well, through an increased demand for our goods and services.

However, the investors from these countries are highly reluctant, given the liquid assets crisis they have been facing; therefore new funds for foreign investments are still frozen.

Moreover, a part of the foreign investors facing an asset shortage in their countries have withdrawn some of the short-term funds intended primarily for the emergent countries, including Romania.

Having in view the subsequent progress recorded in Romania and abroad, especially in the United States of America and the European Union, we will try to consider the possibility of adopting the Euro currency in 2012 or 2014, to estimate

the costs and advantages and eventually to forward another date for the monetary integration.

The analysis will firstly cover the nominal and actual convergence criteria and the way in which BNR may have a determining role in meeting such criteria.

2. Inflation evolution

We address inflation because it is the main focus of BNR. In August 2005, BNR adopts a new monetary strategy – inflation targeting. The main challenge for BCR in implementing this strategy is to estimate a target inflation rate the business community and the population can guide on and to maintain credibility. Moreover, optimum cooperation relations with the government (on the budget and the fiscal policy, the income policy and the commercial policy) contribute to an efficient policy mix.

BNR gradually increases the interest rate from 7% in October 2007, to 9,5% in May 2008, monitoring the inflation increase rate from the beginning of 2008. In case the financial relations between Romania and the EU Member States deteriorate, the interest rates in Romania exceed the ones set within the EU Member States. Therefore, it is very difficult for BNR to set the interest rate according to the inflation target. In case of significant deviation from the inflation target, BNR manages the monetary policy in order to reach it.

Calculated every December, the inflation rate drops from 40,7% in 2000, to 9,3% in 2004 (the first year it yields in only one figure) and to 8,6% in 2005. Of course, a price is paid for this significant fall; the real increase in the GDP varies from 8,5% in 2004, to 4,2% in 2005. In 2006 the inflation rate drops to 4,87%, but in 2007 we witness a reversed ratio and the inflation rate reaches 6,57% (the inflation target is 4%), which means 2,57% above the 4% target. The inflation target is set at 3,8 in 2008, 3,5 in 2009, 3,5 in 2010, 3% for 2011 and 2012 and 2,5% for 2013 onwards. What a wonderful decreasing row! We don't have to provide the inflation real figures; the reference to the 2010 inflation rate (~ 8%) is sufficient. Experience shows that the deflation efforts based on a restrictive monetary strategy entail a slowdown of the economic growth by 1 to 2%.

Has the government developed a sustainable fiscal and budgetary strategy and an appropriate income strategy to maintain the inflation target set by BNR?

The 2004-2009 data reveal an apparent relaxation fiscal and income strategy, having in view that 2008 and 2009 are electoral years.

As a consequence, we witness an increase in the budget deficit up to 7,2% in 2009, falling to 5,9% in 2010 and estimated to be under 3% in 2012.

Generally, politicians do not develop a long-term strategy, the political market is a so-called short-term market. Moreover, we cannot make accurate estimates in this field and it is too early to consider a multi-annual budget. It is difficult to reach the inflation target set by BNR in lack of a deflation-based governmental strategy. This could entail a more restrictive monetary strategy slowing down the economic growth process.

3. Cutting wages and other benefits

A telling example is the 2008 state budget. The Government announces a decrease by 10% in the number of the employees from the central and local public administration, representing approximately 25% of the total number of employees in Romania. The purpose of the job cuts is to diminish the expense pressure, yet the trade union members threaten to fight the Government's decision.

The number of locally funded jobs in 2007 is about 700 thousands (by 10% more than in 2005), while the number of publicly funded jobs amounts to 400,000 (by 20% more than in 2005).

In 2010, the Government cuts the wages in the public sector by 25% along with a job cutting process, still in progress.

The pensions, indemnifications, compensations and the like are next on the authorities' agenda.

4. Uncertainties for the business community and the consumers

Coming across internal and external uncertainties, even the business community can be disoriented and therefore will not pay the necessary attention to the inflation target announced by BNR, believing in it and acting for its achievement.

At the same time, the consumers, who had low incomes in 2010, as a consequence of a restrictive fiscal and budgetary policy, will take action to recover the money loss, not looking forward to a rapid deflation.

Moreover, both the business community and the consumers may fear that a rigid and rapid deflation may have an important cost reflected in a slow economic growth, followed by the loss of jobs and, consequently, the decrease of the salaries. (the experience certain countries comparable to Romania show that, in order to reduce the inflation with approximately 0.5 percentage points, had to accept a reduction of approximately 1 percentage point (pp) of the real production).

On the other hand, most of the economists consider that there is no strong proof that the reduction of the inflation from 5 pp to 2 pp, for example, would contribute to the production growth on the medium or long term.

Probably even the Maastricht criterion regarding inflation is too narrow for the new countries that are to accept the euro currency (only 1.5 pp above the average inflation rate in the first three countries that have the lowest rate.) This limit should probably grow to 2 pp, in order to offer more flexibility to the emerging countries, including Romania.

The fact that all the emergent countries have exceeded the term announced to adopt the euro currency is important; Hungary lengthened 3 times the announced term for the adoption of the euro and Poland recently announced that the probable year is 2015.

In these conditions, BNR can still "push things" for the achievement of the inflation target in a short period of time, but the cost will be high.

5. Who can support BNR?

Who can support the efforts of BNR from now on? The authorities continue to make the labour market more flexible, proposing a new Labour Code, supporting the compulsory private pensions, streamlining the public sector, modernising the education and health sector, continuing the privatisation. There have been made important progresses for the development of the business environment by modernising the procedures of granting the business licences, the registration system and tax payments.

However, the total openness of the trade and of the stock account, together with the too optimistic expectations given by the EU adherence, led to a growth in the current account deficit as percentage of the Gross Domestic Product (GDP).

Although this deficit has been financed mainly by substantial entries of foreign direct capital and by the remittance of the workers from abroad, the private short-term debt has increased, especially during 2007-2009, leading to more vulnerability to the external shocks.

On the medium and long term, it is necessary to establish a correct priority of the projects and a direction of the expenses for the Romanian infrastructure development, in order to increase the trade and competitiveness and, of course, the productivity.

All these actions will support the capital investment development.

Meanwhile, the net financial flows from EU, such as the structural funds for the project financing, the funds derived from the common agricultural policy, compensatory payments, will stimulate the economic agents.

If the nominal convergence were to be really significant in the future, for the purpose of the euro currency adoption, the Romanian prices should also converge towards the EU level, within a single market. This has to be made at the same time with a convergence of the real incomes.

How close should Romania be to the EU average regarding this aspect, for the convergence process to make sense, taking into consideration that currently the gap is 1 to 3?

In our opinion, the gap should be of 1 to 2 (approximately 50%) and until then the inflation rate in Romania may stay higher than in the euro area.

Without going into detail about the real income differences, the statistics show that these represent only 30% of the European average.

6. The gap regarding the minimum income

The data below apply to the period before the crisis, but I consider them relevant for the present analysis.

In 2006, the minimum monthly salary regulated by the Romanian government was of approximately 94 euros, Romania being ranked last in the EU.

According to the Eurostat data, in 2006, the minimum salary in Romania was 14,4 times lower in Romania in comparison to Ireland; 5,7 times lower than in

Slovakia, 3,1 times lower in comparison to Estonia, 2,9 times lower than in the Czech Republic and 2.7 times lower than in Poland and Hungary.

Moreover, between 2003-2006, the minimum salary, expressed in euro, increased by 39% in Estonia, 38% in Slovakia, 31% in the Czech Republic, 23% in Romania and 20% in Spain.

Between 1996-2006, the annual productivity level per worker, expressed in euro, increased 5 times, while the net minimum monthly salary increased approximately 3, 5 times. In 2007, the minimum salary in Romania increased to 114 euros, and in 2008, to 140 euros. There is a long way until reaching a real convergence with the EU average.

Nonetheless, it can be shortened by a good choice made by Romania: the growth in productivity, a better education, research and development, the technological congruence, the innovation, the intellectual capital, efficient markets, the institution's modernisation. These are all medium and long-term objectives and we must persevere every day.

7. Why should we hurry to adopt the euro currency?

There are pros and cons regarding this issue. I shall not mention them here. I shall only mention that on April 15, 2010, the BNR Governor announced the date for the adoption mentioning that a delay of one or two years would be less important.

Of course, the nominal convergence criteria, the inflation, the interest rate, the budgetary deficit, the public debt, the currency exchange might be satisfied sooner, but the price will be paid, sooner or later (lower economic growth for a few years).

8. Our proposition

In 2008, based on the hypothesis of a real GDP annual increase in Romania, of approximately 6% and of 1,5% in EU for the next decade, we calculated that the real income in Romania will reach approximately 50% of the real medium income in EU, in 2016.

Consequently, we proposed that Romania adopted the euro currency in 2016, with an entrance in ERM II in 2014.

Currently, the crisis makes me correct my work hypothesis and consider for Romania a medium growth rate of only 4%. For this year, only a growth of 1,3% is predicted and for 2012, a growth of 3,7%, which are too optimistic growth rates in my opinion.

In the framework of the second scenario, the euro adoption date in Romania would be 2019, with an entry in ERMII in 2017. In case this strategy made sense, in compliance with our proposition, only at the end of 2016 the inflation should reach 2-3%. In the precedential period, 2011-2015, the inflation should be let to fluctuate between 4 and 6% per year. This policy would give four

years more, especially to the small and medium undertakers of Romania, to better adapt to the competition and the economic environment of the EU.

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UPDATE AND INTERNATIONALIZATION OF THE ISLAMIC BANKING ACTIVITY

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Abstract

The context of the financial crisis started has triggered a flow of funds towards the Islamic financial market, which has turned itself into an alternative to the traditional banking structures. The paper herein includes: stages in the evolution of the Islamic banks; the Islamic principles and how they referred to the international banking standards; the impact of the informational technology on the funds segregation and diversification of the Islamic financial products for non-Muslim customers.

Key-words: *sharia-compliant assets, Islamic banking system, interest, profit distribution, Islamic bank.*

JEL Classification: G₁₅, G₂₁, O₅₃

Introduction

The Islamic banking systems are quite new, compared to the traditional banking systems – they emerged in the second half of the 20th century. During the years following the WWII (1939-1945), they enjoyed a spectacular evolution, labelled by gaining independence from the colonial powers (the 60's), the oil crisis and the surge in the price of black gold (1974-1978) and, last but not least, the financial crisis that started out in USA (2007), that had made waves worldwide.

The Islamic banking and financial activity is different from the traditional one in the fact that the entire business must fully comply with the Islamic religion **sharia**, which forbids the interest – **riba**, and where certain **principles** are set up and must be implemented in any transaction and in any bank activity or financial institution. Based on this practice, the 'sharia-compliant' sintagm has been created, in also the assessment of the banks activity, sharia-compliant assets'¹.

The compliance with the Islamic law is severe and firm. To this purpose, each bank has a person employed – **shariah**, or, in dependence with the bank size, a **shariah board**, made up of sharia scholars, juridical consultants of the Islamic religion who follow-up on the 'compliance with sharia' at the respective institution.

Among the factors that have postponed the emergence of the Islamic banking systems, there are: economic and social under-development, late independence and the specific of the financial-banking operations due to the Islamic bank.

¹ In the international statistics regarding the activity of the Islamic banks, they are hierachized in relation to the 'sharia-compliant assets' – SCA.

In general, the Islamic banks have evolved from entities with a simple balance-sheet structure to banking groups with networks and branches at a regional level – in other countries of Muslim religion – and also international, in countries that have conventional banking systems.

Literature review

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Catherine Eagleton, Jonathan Williams, Money. A History, The British Museum Press, London, 2007. The authors have carried out the analysis of the coin institution, from its beginnings to the modern era. In the chapter 'The Islamic Lands', the Islamic coin history intertwines with the presentation of the banking practices in the caliphates of the Arabian Empire or the banking structures that emerged during the colonization of these territories by the great colonial powers.

Stages in evolution

When talking about their emergence and evolution, there are more stages: (1) the appearance of the first banks, (2) the building of the national banking systems, (3) the updating and internationalization of the Islamic banking activities.

(1). The **first Islamic banks** emerged during the inter-war interval of the 20th century (1920-1940). Most of the regions with Muslim population found themselves under the domination of various colonial powers. Thus, the banking activity in Iraq, Jordan and all the countries in the Persian Gulf were dominated by several English banks², and that zone belonged to the **Sterling Area**. The Northern Africa, Syria and Lebanon belonged to the **French Franc Area**, and the presence of the French banks was prevalent. Even in the midst of this geo-political context, four Islamic banks were created: in Egypt (1920), Lebanon (1929), Jerusalem (1930) and Iraq (1940).

Besides these countries and until the WWII, the banking systems in other regions and territories (Asia – Pacific), mostly Muslim, used to include the branches of the foreign banks that had the nationality of the representative power, colonial or under occupation.

(2) The **shaping of the Islamic banking systems** has gradually taken place, after the WWII, while the countries were freeing themselves (the 60's and sometimes later). Even though the structuring of the Islamic banking systems in

² British Bank of Middle East, Eastern Bank, Barclays Bank and Ottoman Bank.

various countries has not followed the same path, for its large majority incorporates the following features:

- the stoppage of the privileges in terms of currency emission granted to the foreign banks;
- the creation of a mainstream bank or the appointment of a national authority with the right of currency emission;
- the regulation of performing the banking profession and creation of certain institutional entities that will provide the control upon the banking activity;
- the opening of specialized Islamic banks;
- the building of payment reimbursement systems at a national level, and for some countries, of centres of banking risk.

At the beginning of the banking systems, the **savings banks** and a certain type of banks were prevalent, which were developing operations of a **strong social nature**, called 'social welfare banks'.

Besides them, **specialized banks** were opened, for various fields (agriculture, foreign trade, industry) and they were concentrating on financing the development or supporting different sectors, according to the **economic development strategy** of the country, and to the solving social issues, as profitability took the second place.

Later, the first Islamic **trade banks** were created, which will rely on **commercial and profitability bases**.

(3) The **update and the internationalization of the Islamic banking activity**. The massive money input for the oil-exporting countries between 1974 and 1978 and the small size of the internal markets had two effects: (1) the orientation of the banks towards developing operations abroad and opening companies of financial investments and (2) deregulation of the monetary, currency and banking-operational restrictions.

Shortly after independence, there were severe discrepancies compared to the foreign banks; later on, the same authorities lessened the control upon the regulations and their attitude towards it. Thus, the economic liberalization emerged, certain seized goods were returned, the activity in the private sector restarted, the regulations in the field of currency exchange rates were changed - to better reflect the real value, in dependence with the market offer and demand; some countries have deregulated the circulation of foreign currency on their territories (free come and go), the opening of imports credits – now, imports were possible without the need to prove the source of money, etc.

Thus, at the onset of the 21st century, the worldwide Islamic-type banking systems were found in 47 countries, falling into three groups:

- **GCC member countries** (Gulf Co-operation Council). The Islamic banks are members of the **GCC**, they hold the largest percentage in the world in terms of sharia-compliant assets (41.2%);

- **GCC non-member countries or MENA countries** (Middle East and North Africa) where predominantly Muslim states are included; Iran is a top state in this category (sharia-compliant assets 38.9%);

– **non MENA countries**, for other countries in the world where either Islamic banks were opened or the traditional banks created departments or branches that perform Islamic-type banking operations – the first places are occupied by Malaysia, United Kingdom, Turkey (19.9%) (Table 1).

Table 1

The geographical distribution of the *sharia*-compliant assets, reported by the Islamic banks

The Gulf Cooperation Council (GCC) (41.2%)		Countries in the Middle East and Northern Africa – MENA (non-members GCC) (38.9%)	
Saudi Arabia	35%	Iran	94.8%
Kuwait	24%	Egypt	2.3%
The United Arab Emirates	18.7%	Jordan	1.3%
Bahrain	14.2%	Yemen	0.5%
Qatar	8%	Tunisia	0.3%
Oman (not available data)		Algeria	0.3%
		Lebanon	0.1%
		The Palestinian territories	0.1%

Other countries (non MENA) (~20% – 19.9%)	
Countries	
Malaysia	52.7%
United Kingdom	13.7%
Turkey	12.4%
Pakistan	5%
Bangladesh	4.5%
Sudan	4.2%
Indonesia	2.7%
Brunei	2.1%
Switzerland	0.7%

Other countries (non MENA) (~20% – 19.9%)	
Countries	
Thailand	0.7%
South Africa	0.2%
Bosnia and Herzegovina	0.1%
United States of America	0.03%
Australia	0.02%
Gambia	0.01%
India	0.01%
Senegal	0.01%

Note: The percentages presented for the categories of countries refer to the ,sharia-compliant assets’ worldwide reported for 2008, a year when they amounted to USD **638.3 billion**. The statistics was drafted upon consulting the data provided by the Islamic banks; as a note, not all these banks have reported or provided data.

- **Malaysia** is one of the countries with the **largest Muslim population** in the world – 55% of the total of 21 mil. inhabitants (not in the Near East).

- **United Kingdom** is a country with a traditional banking system, which had a **larger opening** for promoting **Islamic banking activities**, while many countries of Muslim religion used to belong to the **British Colonial Empire**.

**The geographical worldwide distribution of the *sharia*-compliant assets
in 2008 (%)**

Geographical area	% of the worldwide total
GCC member countries	42.2
MENA (non GCC)	38.9
Sub-Saharan Africa	1
Asia	13.5
Australia/Europe/America	5.4

Source: Global Sharia market chalks up 25% growth, Geographical Distribution, „The Banker”, November, 2008, p. 22-25.

The Islamic principles and the international banking principles

The concern of the Islamic bank to open branches or other entities on the **international financial market** and become active participants in the competition with the international trade banks, has triggered the issue of drafting and adopting certain norms that will comply with the requirements set at the international level, following the Basel Agreements (Basel I and Basel II).

In this larger context, an entity called **The Islamic Financial Services Board** (TFSB) was created in 2003 – it has issued prudential standards, which different Islamic authorities of regulation and monitoring must adopt for them for the Islamic financial operations under their jurisdiction.

The standards concern the requirements related to the risk management, capital adjustment and the corporatists governance that have become guidelines both for the Islamic regulators and the agents on the Islamic financial market – banks and financial institutions.

Ever since the early beginning of Islam (7th century AC), there has been a concern to achieve an agreement between the Kur’an concepts (as god’s criteria) and the daily realities, where both reflect the Islam attitude towards wealth, interest and money.

In Kur’an, there are repeated warnings about the passing nature of wealth and the money that distracts the attention from the true faith; it is forbidden to ask for interest on the loan money: ‘god has allowed the sale, but not the interest’, etc.

As a result of the money ability to distract the attention from faith and the prohibition on the interest, the Islamic religious authorities themselves have aimed to regulate the **unwanted effects of the money** and to set up a frame where a Muslim has money but, at the same time, to be correct from the Islamic ethics point of view.

The compliance with **sharia** is a target for all the bank operations, via five **fundamental principles**:

- Prohibition of **riba** – interest, irrespective of the interest size or the operation type;

- Application of **Al Bay**, a trade principle implemented in all the transactions: one is allowed to sell or buy, to distribute the profit/loss;
- Avoidance of **Gharar** in contracts, namely the non-inclusion of certain clauses, terms, elements of a great degree of uncertainty or deceit;
- Prohibition of **Maisir** – gambling-like, high risk or speculative;
- **Disengagement from financial transactions** that are based on products, actions or merchandise prohibited in Kur'an (pork meat, alcoholic drinks, prostitution, slavery, etc.)

These principles are to be found, directly or indirectly, in the contracts underlying the banking activity in the relation with customers or other counterparties. The contracts are drafted by attorney consultants of the Islamic religion (the four schools).

At the level of the Islamic banking community, an entity has been created with the purpose to provide a unitary frame of implementing the compliance with sharia.

Thus, the Auditing Organization for Islamic Financial Institutions (AAOIFI) has **encoded these principles** into a sharia set and issued the **accounting standards** that were adopted by the Islamic banks worldwide.

These standards should be considered by the manufacturers of the informational technology that is specific to the Islamic banking activity, which developed their IT options for segments of the international financial and banking market.

In order to provide and follow up on how sharia is being complied on within such companies, there is an Islamic legal adviser for the Islamic financial market.

One of the main distinctive elements of the Islamic banking activity is the absence of the interest, both on the deposits (banking liabilities) and on credits (banking assets). According to the Kur'an, the interest is prohibited, irrespective of its size. This restriction does not mean that free transactions are being performed in either direction. The Islamic banks have created systems of trading the banking products and services that allow them to pay or earn an **income** similar to the interest, which are based on the Islamic principles (from the religious ideology), as they are **Islamic interest replacements**.

- The **paid or earned income** by an Islamic bank is, mainly, in the shape of:
- The distribution of profit/loss;
 - The price accrued or the trade allowance;
 - The allowance for the sale of services.

Most often, the paid or earned income is set in a percentage form and it is generically called the 'income rate'.

The segregation of funds and the diversification of the Islamic financial products

The Islamic banks have built **electronic processing platforms that provides the accounting segregation of the Islamic funds from other funds**. This concern has been triggered by three aspects:

– keeping and increasing the credibility of the bank as for the compliance with the Islamic law, in order to not only to attract the Islamic-type companies but also the Islamic religion population who has emigrated or worked in the countries where these banks have opened their branches;

– The Islamic law only mentions the principles that must lead the financial-banking transactions, and not the people who have access to them; as a result, most of the Islamic banks also develops transactions that are specific to the traditional banks for any entity of other religion or/and for the less-religious Arabian customers. This is how the Islamic banks have become direct competitors of the local traditional banks in a financial centre – this thing happened during the 2007 financial crisis when various investors worldwide have opted for placing their funds in the Arabian financial market.

– The Islamic law does not include the requirements that the **seller** of banking products or services be a Muslim or that the other services provided should be only **Islamic** – therefore, the Islamic banks have also developed transactions carrying interest.

But this last aspect has triggered the vice versa – the traditional banking groups have developed Islamic financial products within them. In all cases, they have constituted a separate entity – branch or department in the bank; thus, they provided the strict segregation of the Islamic funds from other money and have hired religious legal advisers or created boards of all such consultants to fully comply with the Islamic law of the products being offered, and accepted by the Islamic legal advisers, consultants of an intangible reputation³.

In a nutshell, the plans used by the Islamic banks are commercial-banking stratagems meant to comply with certain religious principles but, in the end, they have to provide for the bank – as the interest does, for the traditional banking systems – the coverage of the bank expenses and profit making: otherwise, the banking activity could not develop whatsoever.

At the same time, the level of income brought by the deposits or the amount that has to be paid to finance a business or project, mainly in the international competition context, needs to be close enough to the interest fluctuations on the international market, so that the Islamic banks attract clientele and penetrate new markets.

Starting with 1995-2000, the process of maturation of the Islamic banking systems has been accompanied by the concern of capitalizing the experience of volatility being experienced by some conventional banking systems. The context of the financial crisis in 2007, previously warned by certain phenomena in 2005, has triggered a funds flow towards the Islamic financial market. In this context, the Islamic banks have registered significant growth, of mainly three dimensions:

- the volume of transactions has grown, at the level of the current Islamic banking institutions;
- the number of Islamic reporting banks has increased, as Islamic financial institutions that used not to be reporting;

- on the Islamic market, new participants/banks emerged, with new offers of Islamic banking and financial products and services at a global level.

This growth of the Islamic market, besides the flow of funds, was based on new approaches in terms of the new products and services, namely:

- the creation of new products and services, Islamic type, for foreigners (non-Muslim), similar with the products from the traditional banks (inventivity);
- the application of the ‘compliance-to-**sharia**’ principle to various banking products, by adjusting to the customer lifestyle (innovation);
- the creation of more products, Islamic type, for more customers and more markets (the proliferation of the Islamic products).

As a result of an increase in the number of Muslim customers, and also non-Muslim, who have opted for the Islamic financial instruments (during the present crisis), the Islamic banks have been concerned with the inventivity, i.e. creation of new products.

This has led to two dimensions: (1) **new products** for the **current customers** and (2) new products as instruments to penetrate new **geographical markets** or **attract new customers** on certain target segments. In this sense, the major direction was to create and develop Islamic financial products that point to the corporations, as with the Islamic bonds – **sukuk**. For example, United Kingdom and other European countries have taken into consideration the possibility of issuing **sukuk** bonds; other countries has issued financial instruments, such as: Standard Chartered Bank-Malaysia (the SCB group branch in Malaysia) and CIMB Investment Bank; in 2007, the first **sukuk** issuance emerged for the Fresco Group company in Malaysia, in the amount of USD 210 mil. and for Toyota Motors Corp (Japan) for USD 311 mil.

The concept of ‘new customers, new markets’ has taken into account countries where there is **no Islamic banking activity**, but with Muslim population – the aim was to build a relation with the local clientele. Thus, Express Bank in Russia introduced the Islamic payment card on the Russian market, in 2007, which very quickly witnessed a great audience among the Muslims in this country. Another target was the Muslim population in Australia, where the contact relation has been achieved by the Muslim Community Co-Operative Australia etc.

The new product, the **Islamic card**, has been introduced simultaneously on several Islamic markets (2007 and 2008). This card is similar to any debit or credit card, but the compliance with **sharia** must be considered.

The fundamental element in the development of the new products, Islamic-type, has been the implementation of the **sharia-compliance** principle for the non-Muslim customers who were turning to the Muslim-type products or services.

The process has included two approaches: (1) **Islamic banks** that aimed to attract the Muslim population who had immigrated to other countries and/or who had known or had used the traditional banking products and (2) banks in the traditional banking systems that have opened branches/departments with Islamic banking products.

The Islamic products tender of the **new Islamic banking groups** includes **Islamic variants**: private banking, investment funds, leverage buyout (the first Islamic leverage buyout was in UK, 2007); the **murabaha** technique has been adjusted for the trade financing, buyer credit, accounts receivables based on future earnings; new types of structured finances have been created (**salam** and **wa'ad**) and solutions to finance the projects (**Ijara and istisna**) etc.; even though they are conventional financial products as origin, all of them have been redesigned to comply with **sharia**.

As a result of the financial transactions specific nature, the extension of the Islamic banking activity in other countries with traditional banking systems has been done with difficulty, mainly from the perspective of the banking regulating and the reporting duty to the central bank in the host country for certain indicators, with no equivalent in the Islamic banking practice.

United Kingdom has been one of the countries with a conventional banking system that, officially, started the authorization of functioning for the Islamic banks or allowed the opening of departments within their banks to offer Islamic products.

At the beginning of the financial crisis, it seemed that the Islamic banks were sidestepped by its effects and even proud to have changed into an alternative of placement. The relevant mass-media had articles where the Islamic financiers always underlined the value of the Islamic concept of the banking, where profit and risk are being divided – unlike for the western creditors –; the characteristic of profit and risk division has been highlighted, different from the systems of the interest-based trade banks, where the pressure is all exerting upon the borrower to reimburse the credit and interest, no matter of his success or failure in his business.⁴

Short time after the crisis and while the oil price went down, the Islamic banks have started confronting with various phenomena: the ones in Kuwait were affected by the negative evolution of credits granted for properties – the banks in Bahrain were having a surging liquidity crisis and the ones in the United Arabian Emirates reached an under-capital level and performed non-efficient activities.

In this context, the Islamic banks have taken into account the possibility of their strengthening (mergers and acquisitions) as a solution to overcome the tough financial situations and maintain their market positions.

The concerns of the Gulf countries to develop transactions that are specific to the financial market have not only limited to the creation of specialized entities but, in time, have looked at the possibility to open financial centres with an international resonance.

Such an example is **Dubai International Financial Centre (DIFC)**, built in Dubai, the financiers have had the purpose to have a financial centre for operations and transactions of huge values and, when fully developed, to reach a status similar to the ones in New York, London and Hong Kong and to serve the large region located between Western Europe and Eastern Asia. Since it opened in 2004, it has been the financial centre with the fastest growth. In 2005, it opened a

stock market of an international stature: NASDAQ Dubai (formerly known as Dubai International Financial Exchange or DIFX). Besides the financial effort (billions!) put into its building per se and the equipping with state-of-art IT, all the steps have been taken to give it a legal and normative frame, worldwide recognized – implicitly, by creating an independent entity of regulation and monitoring of the financial services, Dubai Financial Service Authority.

Conclusions

Currently, the mankind is going through extreme changes, new hierarchies emerge and so new participants on the international financial-banking market.

In this context, the Islamic banking industry is setting itself apart, by dynamism, inventivity and the un-doubtable desire to impose itself worldwide, not only for the Islamic population having emigrated to non-Islamic countries, but also for the non-Muslim customers.

The phenomenon of dissemination of the Islamic products is also seen at the traditional banks, banking groups that, on the international market, opened departments, branches where promote Islamic banking products.

Even though the activity of the Islamic banks is not always transparent, but traditionalist and unsophisticated (subject to the Islamic legal advisers), the Islamic banking system distinguishes itself as an active presence on the international financial market.

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NOMINAL CONVERGENCE IN POST-ACCESSION ROMANIA

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Abstract

This paper aims to analyze the achievement of nominal convergence criteria by the Romanian economy, as well as the macroeconomic effects caused by the strong targeting of these criteria. The global crisis caused a small contraction of governmental expenditure but a fast-growing public debt. The policies restricting budget deficit and public debt continue to produce strong theoretical debates on the right way to reach economic growth.

Key-words: *convergence, budget deficit, public debt, GDP, monetary union*

JEL Classification: E₆₁, H₆₁, H₆₃

Introduction

In the last three years (2008-2010), as a result of the outstanding negative effects that have affected, in various degrees, the European economies, government concern became stronger over the performance of the nominal convergence criteria laid down in the Maastricht Treaty of the European Union. In February 1992, the main reasons for defining such criteria were related to the introduction of the common monetary policy, based on a single currency managed by an independent central bank.

After 1996, the Stability and Growth Pact aimed towards the coordination of national fiscal policies to ensure stability and prudence for budgetary climate, essential conditions for the success of Monetary Union.

Today, when the macroeconomic instability of several EU countries like Greece, Latvia, Ireland or Portugal has become a reality and the future of monetary union remains uncertain, the arguments for compliance of the nominal conditions are stronger and the speed required to achieve macroeconomic stabilization must be intensified.

Sometimes, during the crisis, the EU members who have experienced deep macroeconomic imbalances have questioned the optimal character of convergence criteria, even the possibility of relaxing them. In the near future, there is no chance to revise the Maastricht Treaty or the possibility of derogations from it.

This attitude comes even in the context in which several members of the Monetary Union faced with excessive budget deficits in 2009: Greece (15.4%), Ireland (14.4%) and Spain (11.1%) and with public debt above the level accepted by the Stability and Growth Pact: Greece (124.9%), Italy (118.2%), Belgium (99.0%) and Portugal (85.8%) in 2010.

Moreover, before such a situation, the European finance ministers agreed in the 2010 to strengthen sanctions against countries that fail to combat effectively the excessive budget deficit, in a term of grace granted, by the application of penalties that can amount up to 0.5% of GDP.

The challenges of global financial crisis

Fiscal deficit and public debt were the most affected nominal convergence criteria by current economic crisis. The influence of debt on macroeconomic stability and the ability to resume economic growth has been a constant concern since the Second World War.

J.E. Meade (1958), Franco Modigliani (1961), Paul Krugman (1988) have analyzed the long run implications of public debt on economic growth. They consider being a negative relation between high public debt and growth. Moreover, Krugman introduces the concept of „debt overhang”, when the debt repayment ability of a country falls below the contractual value of the debt. We know that up to a certain threshold, the accumulation of external debt can be financed by investments, but beyond a certain level, investors will not be interested in financing this debt.

Robert Barro (1979) argued that government bond coupons must be finally paid from increased taxation. Regarding inflation, Barro found a link between high inflation and reducing the real cost of debt; the effectiveness of the inflation channel is quite sensitive to the maturity structure of debt.

Reinhart&Rogoff (2010) have shown that a higher public debt is generally associated with lower rates of long term growth (at a debt level over 90%). According to Reinhart&Rogoff, the EU public debt (about 88.5% in 2010) is still below the threshold at which growth is adversely affected. They suggest that the debt of many developing countries already may have a negative impact on GDP growth.

The opportunity to establish formal criteria for European economic convergence and the tension arise between nominal and real convergence were constantly concerns for Kenneth Rogoff (1996), Marius Marinaş (2006), Aurel Iancu (2008), Andrea Presbitero (2010), Reinhart & Rogoff (2010).

Most of these specialists argue that the desirability of nominal criteria is primarily determined by the European economy, which needs a harmonious economic development of their members that have chosen or wished to participate to Monetary Union. These nominal conditions are intended to remove any tensions between members, caused by the spread of negative effects of economic imbalance.

The latest collective study developed at European level, entitled Bruegel Report (2010) has failed to define the optimal set of economic policies favourable to long-term removal of existing imbalances or have been exacerbated by economic crisis, although they suggested a new economic model for the resumption of economic growth in the countries of European Monetary Union and especially among those who wish to adopt the European single currency.

However, the European economists have recommended to provide better conditions to potential candidates for the European Monetary Union membership, but adding new requirements in addition to those set by Maastricht Treaty, such as: the exchange rate is not overstated; the candidate must have already implemented devices to oversight the financial stability and the flexibility of own economy is adequately high to prosper after the integration into the Euro zone.

We must not forget the targets set in Copenhagen (1993) that proposed the adoption of European single currency by the new EU members within the shortest possible time.

Adopting the Euro currency is not the end of the complex process of convergence but rather its beginning. Entry into the Euro area does not mean removing the need to solve macroeconomic imbalances existing in the Member State wishing to join (Cristian Popa, 2009).

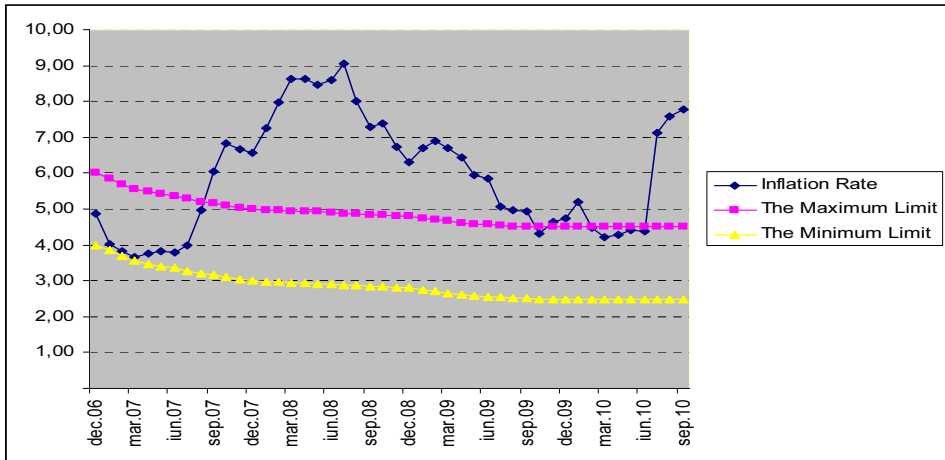
Macroeconomic trends in Romania

In Romania, the catching up process with the EU was based on an economic growth rate higher than the European average, but this growth has halted abruptly in the last quarter of 2008. Also, the process of real convergence has a strong partner in the productivity growth, more than 10% annually, led by very low initial levels, the progressive reduction of the rate of employment in agriculture and especially by the growth of foreign direct investments. This substantial increase in labour productivity has been brought forward by the accelerated growth of wages, leading to a worsening of external deficit and a further inflationary pressure (Mugur Isărescu, 2008).

The effects of economic crisis were felt in the most macroeconomic indicators since the beginning of 2009, on the one hand as a result of relatively low flexibility of the Romanian economy and on the other hand because of the inability of the Romanian government to immediately adapt its macroeconomics policies to a radically changed economic environment.

In Romania, the delay in taking solid measures of economic adjustment was determined by several election campaigns over the years 2008-2009, which postponed the unpopular decisions in the restrictive budgetary policies, fiscal and social right sectors, thereby prolonging the slope of the economic downturn and delaying economic recovery.

The disinflation or targeting inflation process of National Bank of Romania (NBR), which began in August 2005, failed to achieve the targeted margins, exceptions being 2006 and first two quarters of 2010.

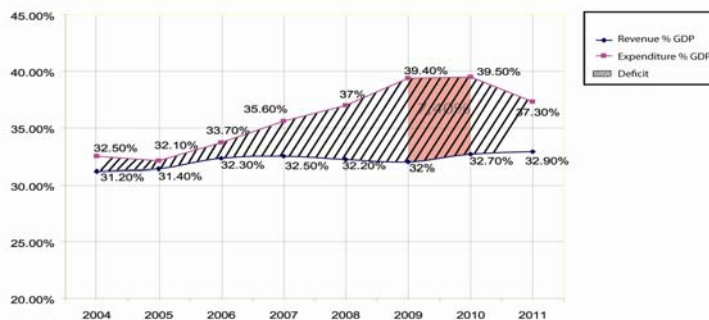


Source: *Inflation Report*, November 2010, from the National Bank of Romania
 Fig. 1. *Inflation targeting in Romania (2006-2010)*

In 2010, the failure to target inflation was mainly driven by adjusting the minimum European duty level, by increasing the value added tax (VAT) from 19% to 24%, as a result of government failure to find alternative solutions to restrict the governmental expenditure, and the dynamics of imported food prices, due to limited domestic supply.

The NBR monetary policy has had an anti-cyclic nature, but nevertheless could not counter the massive inflows of foreign capital and the significant size of foreign currency credit. However, NBR has worked with successive reduction of the monetary policy interest rate from 10.25% to 6.25% in two years, during nine successive interventions and has reduced the minimum reserve requirements on deposits in domestic resources from 20% to 15% and from 40% to 25% for reserves in foreign currency.

The corrective depreciation of the domestic currency against the euro, from 3.6 Lei/ € in October 2008 to 4.2 Lei/ € in January 2010, has been an effective stimulator of the Romanian exports, especially inside the EU. In this context, the Balassa-Samuelson effect, based on the theory of faster productivity in the tradable sector of the economy and the fast growth of prices in the nontradable sector, has contributed an average of 1.5% inflation increase in the years 2009-2010, in almost the same parameters calculated for the years 1995-2004 (Altar, Albu et al, 2005)



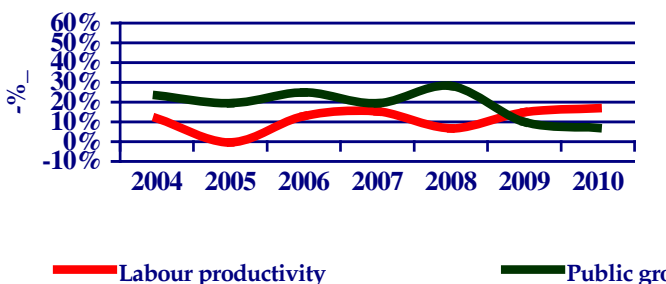
Source: *Fiscal and Budgetary Strategy for 2010-2013*,
from the Romanian Ministry of Public Finance
Fig. 2. *Romanian government revenue and expenditure (2004-2011)*

The budgetary and fiscal sustainability was certainly the most affected by the contraction of economic activities in Romania. To this economic reduction was added the lack of budget and fiscal reforms, making the construction of governmental budget with unrealistic expectations for revenue and wrong projections of economic growth, having continuing growth of expenditure, especially in social programs.

For example, in November, 2008 the budget projection for the next year, 2009, was built on an estimated nominal GDP of 578.5 billion Lei, compared to 491.24 billion Lei as was actually done (INS, March 2010). Budget revenues over 38% of GDP were also anticipated, while the income earned in the last five years have not exceeded 32% of GDP. In this economic environment, the budget deficit since 2007 has increased progressively until 2009, over the 3% limit, by the national evaluation methodology.

According to **ESA 95** methodology the budget deficits for the years 2008 and 2009 were higher by over one percent against the national results.

It should also be noted that income expectations were unrealistic and based on a short term excess of demand, caused by an unsustainable increase in incomes, by increasing the wages more than labour productivity or by exceeding growth in consumer credit.



Source: *Romanian Statistical Yearbook 2010*, Romanian National Institute of Statistics
Fig. 3. *Wages – Labour Productivity Correlation in the Public Sector*

For example, if we eliminate the cyclical component of incomes (method used by IMF, OECD and EC), one can see more clearly the true magnitude of fiscal deficit of 4% in 2007 (+1.5%) and 8.5% in 2008 (+3.15) compared to the officially reported 2.5% and 5.4% (Florin Georgescu, 2010)

The strong need to finance the budget deficit led to an expansion of Romanian public debt. However it is still lower than the Maastricht standards, under the 60% of GDP, but its growth in the last years is quite significant, from 30% of GDP in 2009 to 37.3% in 2010, with the expectation of moderate growth in 2011 to 39.5% of GDP. The risks associated to the short and medium term debt is relatively low, primarily grace to their small size on short term and then to the financial agreement with the International Monetary Fund and European Commission.

The 2010 was a favourable moment for public finances in Romania, by adopting the Fiscal Responsibility Law (no. 69/2010), which established the duty of Romanian government to elaborate its medium-term fiscal strategy, an extremely important document for the development of a prudent fiscal policy aimed to strengthen fiscal discipline.

In Romania, the most part of the restructuring policies has been driven by requirements established in the external financing agreements with IMF and CE, which set several sine qua non obligations for macroeconomic stabilization. Only after reaching these obligations, the International Monetary Fund and European Commission have released the tranches for NBR, but also for financing excessive budgetary deficit.

The potential risks related to political factors still remain (Lucian Croitoru, 2010) because the reforms initiated in these years need a consistent political support to the medium and long term, and the next period 2012-2014 will be characterized by new electoral campaigns, which may lead to new social and economic falls.

As regards of fiscal consolidation, although in Romania there is a large number of taxes, the share of budgetary revenues in GDP has not increased significantly, fluctuating around 32% of GDP, against the European average of 40% of GDP. The level of revenues was not influenced by any adopted tax model: either a progressive or single rate tax.

Most of the explanations for this discrepancy are related to excessive growth of smuggling, to increase of informal labour relations and to higher tax evasion, spurred by weak or corrupted fiscal institutions.

The exchange rate of national currency has been framed in the stability requirements. Despite the corrective depreciation of national currency, foreign exchange rate fluctuation margins were maintained within $\pm 15\%$, with a variation of 1.71/-14.3%, calculated as the maximum deviation of the exchange rate against the euro between November 2008-October 2010 compared with the average recorded in October 2008 based on daily data (NBR, *Monthly Newsletter November 2010*).

Long-term interest rates for the benchmark between September 2009 and August 2010 were 1.3% above the average of three best performing members of the euro area even more than the margin of 2% (6.3%), so a real rate of 7.6% for the year 2010.

Conclusions

Between 2008 and 2010, strong macroeconomic imbalances have led to a reassessment of the period for adopting the single currency for several EU member states, including Romania; except Estonia, a small state, which became a member of Euro zone in January 2011.

Analyzing the moderate rhythm of economic reforms and the state of the main macroeconomic index, we may affirm that the date January 1, 2012 may be still sustainable for Romania to join the Exchange Rate Mechanism II, only on the condition that it should conclude in 2011 a new funding agreement with IMF. This new agreement will aim to give not only a psychological signal to international markets, but also to impregnate continuity for national reforms, without delaying or altering them by the electoral events, that will take place from 2012 to 2014.

The new agreement with the IMF can be very useful especially in the international context of frozen credit markets.

If Romania chooses the second scenario or *the second best*, the date of 1st January 2013, for the last stage before adoption of Euro, the Exchange Rate Mechanism II, the delay can be seen in a dual effect, not only as a failure point.

On the one hand, by extending the period of delay, the implementation of structural reforms can be achieved. These transformations are expected over two decades by the Romanian economy and society, especially on social benefits and public sector employment.

A year of delay will allow a greater deepening of convergence in real terms (GDP per capita, labour costs, the share of GDP in the formation of branches of national economy or the degree of openness of the economy) and business cycle synchronization between the euro area and Romania, to keep away from risks associated with asymmetric shocks. The monetary policy autonomy will be extended, especially the autonomy on the exchange rate to stimulate exports.

On the other hand, if the rescheduling will be transformed into an indefinite delay, it can reduce the consistency of the structural reforms initiated in time of crisis. It also will maintain currency risk conditions, and high transaction costs, adverse effects on investment and growth. We must also take into account the negative impact on the international capital markets.

Resumption of growth of the Romanian economy could be helped, no doubt, by the absorption of EU funds, up to values of 4% of GDP. If a financial instrument such as grants will be used in the next three years, funds may lead to the resumption of GDP growth and significant reduction in fiscal deficit. This is the last emerging problem for the Romanian economy, but the most difficult to eradicate in the current domestic and international context.

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THE ECONOMIC RECOVERY IN THE CENTRAL AND EASTERN EUROPEAN EU COUNTRIES

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Abstract

Following the recession in 2008-09, the economies of the eight EU countries in central and Eastern Europe outside the euro area (CEE) are recovering gradually, albeit with significant differences across countries. The expansion in economic activity is currently being driven primarily by exports as domestic demand remains subdued. Those countries that accumulated relatively more substantial internal and external imbalances before the financial crisis suffered more severe contractions in output during the crisis, and most of them face a more sluggish economic recovery.

Key-words: *economic recovery, recession, competitiveness, value added, economic exchanges*

JEL Classification: D₅₁, E₂, F₄₁, F₄₃, G₀₁

Introduction

Global economic activity is continuing to recover, but the pace of the recovery remains uneven. At the same time it is slower than in the first six months of the year 2010, as the impact from some supportive factors, such as the inventory cycle and fiscal stimuli, is fading. In advanced economies, the pace of growth has been more modest, while in emerging economies it remains robust, despite moderating recently. Notwithstanding the slight pick-up seen in the last few months, inflationary pressures continue to be rather subdued in advanced economies. This contrasts with some emerging economies where stronger inflationary pressures persist.

The CEE countries are now edging out of the deepest recession they have experienced since the transition to market-oriented economies, with almost all countries having recorded on average positive quarter-on-quarter GDP growth rates since the second half of 2009.

The importance of this monoeconomic observation consists in the steps that must be followed in order to realise an economic growth in the region and in the world.

In what follows I will play extensively the current state of the economy of this area based on information that was taken from studies that were conducted mainly by the European Central Bank, International Monetary Fund, OECD and

Eurostat. Also, documenting the article was done researching specialized international statistics, especially reports of institutions, organizations and specialized international bodies.

The external environment of the euro area – developments in the world economy

Global economic activity is continuing to recover. The pace of the recovery remains uneven and has lost momentum compared with the first six months of the year 2010, as the impact from some supportive factors, such as the inventory cycle and fiscal stimuli, is fading.

In advanced economies, weak labour market prospects, the need to repair balance sheets and low levels of consumer confidence have contributed to dampening the recovery. Growth in emerging economies remains dynamic, although it has moderated in recent months.

The latest survey-based evidence confirms that the global economic recovery has continued at a more moderate pace in the second half of 2010. The Purchasing Managers' Index (PMI) for global all-industry output declined steadily in the five months to October, when it increased to 54.8. This index remains above its long-term average, but below the average recorded for the first half of 2010 (see Chart 1).



In advanced economies, inflationary pressures remain rather subdued, despite inflation rates picking up slightly in recent months. In some emerging economies stronger inflationary pressures persist. In the OECD countries, headline annual inflation increased by 1.9% in the year to October 2010, compared with 1.7% in the year to September (see Chart 2).



Higher food and energy prices contributed to this increase. Annual inflation excluding food and energy stood at 1.1% in October, down slightly from 1.2% in September. As indicated by the global PMI input price index, purchase prices have increased in recent months, but remain below pre-crisis levels.

Having made a strong recovery between the third quarter of 2009 and the second quarter of 2010, global trade growth is also showing signs of moderation. The most recent data indicate that global trade grew by 0.9 % quarter on quarter in the third quarter of 2010, down from 3.2% in the second quarter.

Economic situation of EU countries – EU members and other European countries

The economic situation in the other non-euro area EU countries continued to improve in the second quarter of 2010. Nevertheless, inflation has been increasing in recent months.

In the third quarter real GDP rose quarter on quarter by 2.1% in Sweden and by 0.7% in Denmark. In both countries, inflation has risen slightly in recent months, standing at 2.4% in Denmark and 1.6% in Sweden in October 2010.

The largest central and eastern European EU countries have continued to recover in recent quarters. The recovery continues to be supported by external demand and the rebuilding of inventories, although some differences across countries prevail. Domestic demand has remained rather subdued, owing to weak labour and credit market conditions, low capacity utilisation, as well as fiscal restraint in some countries.

Looking ahead, short-term indicators suggest a further improvement in the economic situation in all countries except Romania, where the preliminary estimate suggests negative growth for the third quarter of 2010.

In recent months inflation has been increasing in the EU countries in central and Eastern Europe. In October 2010 HICP inflation stood at 1.8% in the Czech Republic, 2.6% in Poland, 4.3% in Hungary and 7.9% in Romania. In most countries, the rise in inflation resulted from energy and food prices, partly reflecting a base effect from last year's strong declines. The relatively high level of inflation in Romania also reflects the impact of the VAT increase that was introduced in July 2010.

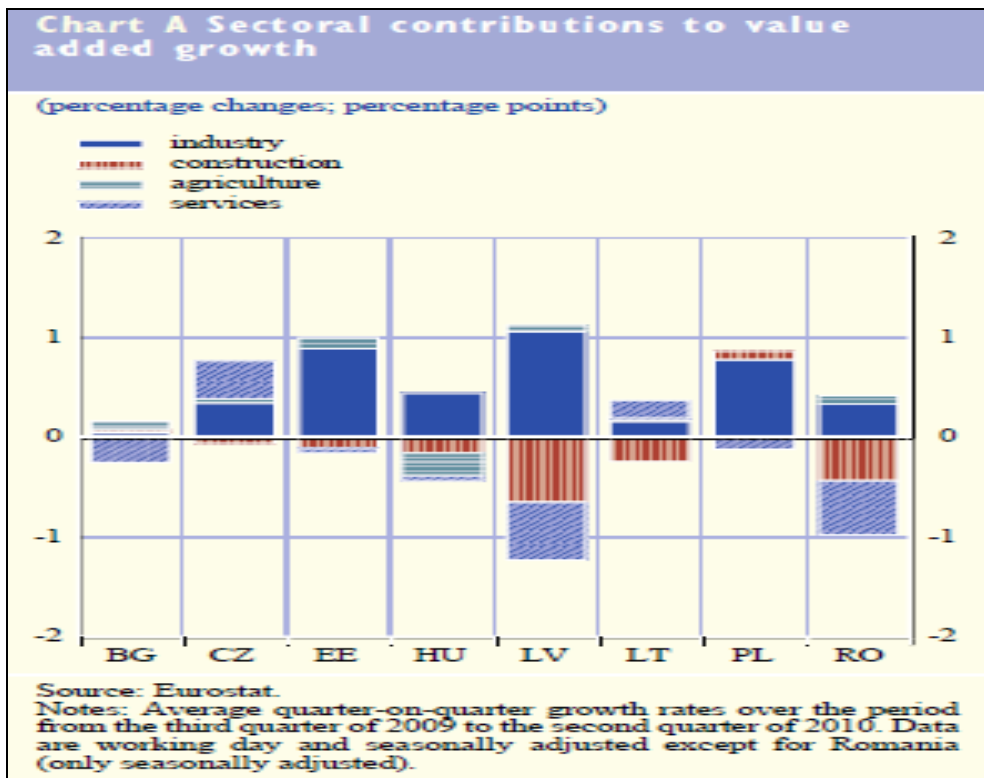
The economic situation has also stabilised in the smaller non-euro area EU countries, namely the Baltic States and Bulgaria. Inflation has also picked up in these countries from the very low, and for some time negative, inflation rates witnessed during the deep recession in 2009.

In Russia, the recovery in economic activity was interrupted in the third quarter of 2010 as a result of the adverse impact of the exceptional heat wave that engulfed the country. According to preliminary estimates, year-on-year real GDP growth moderated in the third quarter to 2.7%, down from 5.2% in the second quarter. However, owing to the temporary nature of this shock, growth is expected to pick up again by the end of the year, as also suggested by leading indicators.

Inflation started to edge up, reaching 7.5% year on year in October. This increase was driven largely by food price hikes on the back of the severe heat wave. Looking further ahead, the pace of the recovery is likely to be shaped by commodity price developments and domestic credit growth.

Recent recovery in economic activity in EU area

The timing and strength of the economic recovery have been heterogeneous across countries. While the upward trend in Poland, the Czech Republic and Estonia started earlier and has been stronger, the recovery in Hungary, Latvia and Lithuania, and in particular in Bulgaria and Romania, did not start until the first half of 2010 and has remained weaker. In terms of sectoral contributions, the recovery in most CEE countries has been driven by buoyant industrial activity (see Chart A).



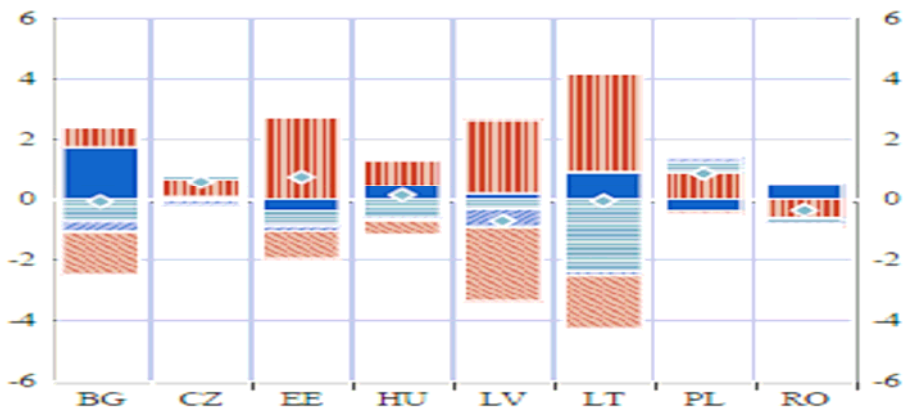
Conversely, muted construction activity has constrained the recovery in nearly all CEE countries over the past year. This is particularly the case in the Baltic States, where the construction sector expanded at an unsustainable rate during the previous boom period. However, the positive contributions to growth from the construction sector in several countries in the second quarter of 2010 suggest that the downward trend has bottomed out.

Similarly, the services sector remained fairly weak at the beginning of the recovery, but, in many countries, it contributed to growth again in the first half of 2010. The pick-up in economic activity in most countries has been driven mainly by inventories and foreign demand on the back of a rebound in world trade since the second half of 2009 (see Chart B).

Chart B Contribution of expenditure to real GDP growth

(percentage changes; percentage points)

- net exports
- ▨ inventories
- ▨ private consumption
- ▨ government consumption
- ▨ investment
- GDP



Source: Eurostat.

Notes: Average quarter-on-quarter growth rates over the period from the third quarter of 2009 to the second quarter of 2010. Data are working day and seasonally adjusted except for Romania (only seasonally adjusted).

Domestic demand has remained subdued in all countries except Poland. Private consumption has receded further in Bulgaria and Hungary, and especially in the Baltic States, where private consumption had risen considerably before the crisis and unemployment has reached high levels (around 18.5% in the second quarter of 2010).

Investment has not yet started to recover since the end of the recession. In fact, it decreased further in all CEE countries in the first half of 2010. Government consumption has also made a negative contribution to economic growth in the region, reflecting already stretched public finances and fiscal consolidation efforts. Weighted average public deficits were around 6.7% of GDP in 2009 and are projected by the European Commission to remain broadly unchanged in 2010. Macroeconomic imbalances, which had been built up in some CEE countries prior to the crisis, are gradually being reduced. This process is necessary, but is currently constraining domestic demand. Credit growth to the private sector in the region has fallen gradually from the unsustainably high levels it reached in 2007-08, bottoming out at single-digit growth rates during the first half of 2010. The Baltic States and Hungary have even experienced negative credit growth rates since the second half of 2009, reflecting a reduced level of private sector indebtedness.

Although this is helping to repair households' balance sheets, it is hampering private consumption in the short term. In addition, the high ratio of non-

performing loans in some countries (between 17.5% and 19.2% in Lithuania, Latvia and Romania in the first quarter of 2010) is limiting banks' scope for further lending.

Alongside the slowdown in credit growth, financial account balances have deteriorated further since the onset of the recovery, compared with the levels seen during the crisis, and considerably more compared with the previous boom period. Turning to the individual types of capital flow, portfolio inflows, which tend to be a relatively volatile form of capital inflow, became negative in a number of CEE countries during the crisis. More recently, however, this downward trend has reversed in some countries (e.g. Lithuania and Poland). By contrast, most of the CEE countries continued to attract foreign direct investment (FDI) or recorded only small outflows during the crisis and the ongoing recovery period. These FDI inflows are likely to play an important role in supporting sustainable economic growth, especially if they are directed to the tradable sector.

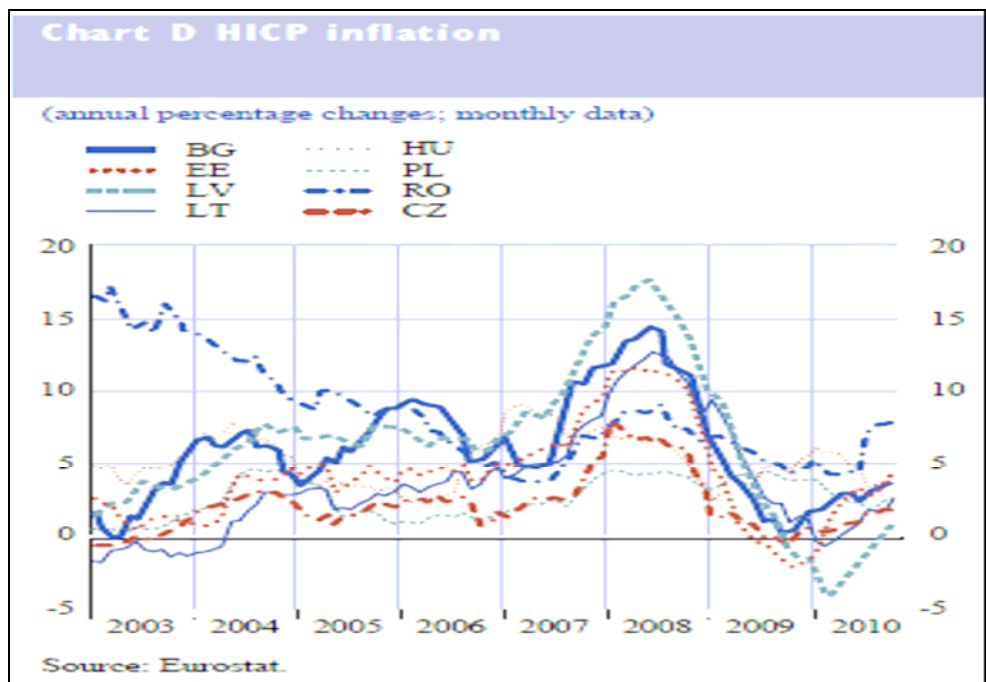
Prior to the crisis, imbalances emerged in many CEE countries, among other things, as a result of unsustainable increases in employee compensation, which significantly exceeded productivity gains. During the crisis, however, some of the countries reduced nominal wages, in particular the Baltic States, where they have dropped by 26% on average since the middle of 2008. Although this drop in disposable income is an additional burden on households' ability to consume, the adjustments have helped these CEE countries to partly compensate for the earlier loss of price competitiveness vis-a-vis their main trading partners (see Chart C).



The CEE countries with a flexible exchange rate regime (i.e. Hungary, the Czech Republic, Poland and Romania) enhanced their competitiveness mainly through a sizeable nominal depreciation of their currencies in 2008 and early 2009, although these developments were partly offset by appreciations at the end of 2009 and early 2010. Altogether, the rebound in foreign demand, greater competitiveness and subdued domestic demand have led to a sharp decline in

current account deficits in the CEE countries. In the case of the Baltic States and Hungary, the deficits even turned into a surplus in the first half of 2010.

Following substantial disinflation (and partly deflation) during the crisis, HICP inflation in the CEE countries with a fixed exchange rate regime (i.e. the Baltic States and Bulgaria) has been rising again since spring 2010 (in Latvia only since September 2010). By contrast, the CEE countries with a flexible exchange rate regime did not experience such high inflation rates during the previous boom period and did not see an equally pronounced phase of disinflation during the crisis (see Chart D).



During most of the recovery period to date, inflation rates in these countries have remained positive and below 5%. In Romania, however, inflation has increased further in recent months.

Conclusion and outlook for economic activity in ECE area

Looking ahead, economic sentiment surveys signal a further strengthening of the recovery in all CEE countries, albeit to a lesser extent in Bulgaria and Romania. Domestic demand is expected to make a stronger contribution to growth in 2011, although exports are likely to remain a driver of economic activity in the region. With both domestic and foreign demand expected to gain momentum again next year, projections for real GDP growth in 2011 stand at around 3.5% for the Baltic States and Poland, 2.3% for the Czech Republic, Hungary and Bulgaria, and 1.5% for Romania (see the table).

GDP forecasts for 2011

(annual percentage changes)

	IMF	European Commission	Consensus Economics
BG	2.0	2.6	2.4
CZ	2.2	2.3	2.2
EE	3.5	4.4	3.8
HU	2.0	2.8	2.4
LV	3.3	3.3	2.9
LT	3.1	2.8	2.9
PL	3.7	3.9	3.8
RO	1.5	1.5	1.5

Sources: IMF World Economic Outlook (October 2010), European Commission autumn forecast (November 2010) and Consensus Economics Forecasts (November 2010).

Nevertheless, there are still risks to this outlook. Although the unemployment rate in all CEE countries (except Lithuania) has been decreasing gradually (or at least has stopped rising) since the beginning of 2010, the continued high level of unemployment is likely to dampen private consumption for a prolonged period. Similarly, should the deleveraging of the private sector continue, it will reduce growth in domestic demand. Moreover, additional uncertainties stem from the outlook for external demand as well as capital flows to the region.

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II. ADOPTING THE EURO – AN OSCILLATING TARGET

THE ROMANIAN GENERATION Y: PREPARING TODAY'S STUDENTS FOR TOMORROW'S JOB MARKET

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Abstract

Who are they, what do they want, but most of all, where are they? Teaching for the generation Y is a total challenge for today's teachers. But become acquainted with the habits and expectations of the Generation Next might help us to bring them back into the classroom and train them properly for the job market. It is imperative to understand the new directions set by Generation Y itself, on their terms, to develop a methodology that might ensure their future success. This paper is a comparison of the members of the so-called Generation Y in the USA, Europe and Romania, their different environment and expectations, with a particular focus on the Romanian GenY and the students of Spiru Haret University.

Key-words: *Generation Y, Generation Next, the Millennial generation, technosavvy, attention span, multitaskers, networking, multimedia entertainment*

JEL Classification: L₁₄, L₈₂

Defining and understanding Generation Y

'Every generation imagines itself to be more intelligent than the one that went before it and wiser than the one that comes after it' (George Orwell).

They have been given varied names: Generation Y, GenY, Generation Y Not, the Millennials, the Net Generation, the Digital Natives, the Echo Boomers, Generation Next, the Facebook Generation, in an attempt to enter and decode their world to the benefit of the whole society. They are the generation born approximately between 1978-1995, although this time interval varies from one country to another, from the USA, to Europe and Romania. This is the digital generation, no doubt, who has grown along with the computer and the other technology developments they are so keen of and experts in. But, while the computer was a common item in the early '90s in the USA, in Romania only the children born after 1990 have had the opportunity of benefiting from the modern technology in their first life decade. The generation gap may not be so long between the USA and the rest of Europe, but the US generation has definitely been ahead. In spite of the few years of delay, all the detailed reports and studies on the GenY show there are common characteristics defining them worldwide, with few historical differences. These characteristics have been approached from two points of view: 1) the intrinsic features of the members of the technology-conditioned generation and 2) from the point of view of their values and attitude towards work.

1. Agreed common intrinsic features:

- *Familiar with and reliant on communication technologies* (technosavvy) – use and integrate technology in all forms into their lives.
- *Short attention spans* – the instant click of a mouse is the info rate they are ready to accept, every topic should be short and to the point.
- *Multitaskers* – while listening to a topic, they may send an e-mail or an SMS or look up something on the mobile net at the same time, which does not mean they are not interested in the topic under discussion; but time is too precious not to make the best of it.
- *Filter and consume info quickly* – easily select information and are able to process it immediately and apparently, effortlessly.
- *Information must apply directly and be relevant for them* – Skype, ICQ, MySpace, Facebook are **the** channel of communication for them, where they select the information they need at a high-speed rate, any background or general information is irrelevant, therefore, useless and left aside.

It is a generation whose thinking patterns are fundamentally different from the previous generations, mostly due to the different way of processing and thinking information in a time of technology boom. Their learning preferences, their motivation and expectations from education are different and while they are seen as ‘growing without values’, they have something new to offer: directness, pragmatic goals, high expectations, fast achievements. How do we, the education providers, cope with this?

Teaching Generation Y

Of particular interest for the teachers, the above-mentioned features, when acknowledged, should provide the key to successful teaching. Patience and obedience in the classroom (or anywhere else, for that matter), key-words for generation X (born between 1961-1979) are no longer a virtue, but a waste of time. Universities in many countries have already taken steps in meeting the needs of the new generation by developing projects, policies, strategies to facilitate teaching and learning of the GenY (e.g. University of Melbourne, *Educating the Net Generation: A Handbook of Findings for Practice and Policy*, 2008). A new approach to adult teaching has been a constant concern for quite some time now. In the second half of the 20th century the studies of Malcolm Knowles (1984) were a breakthrough in the learning theory; he proposed new directions in adult education with a shift of focus from teaching to learning, a more flexible and meaningful approach. Knowles pointed out that as a person matures, his readiness to learn increasingly becomes oriented to developmental tasks of his social roles. Therefore, teaching should become more related to real-life, to the interests of the student. The ‘learner-centered’ teaching which involves:

- providing choices for learners about where, when and how they learn;
- focusing on learning rather than teaching;

- encouraging learner responsibility and activity rather than teacher control and content delivery;
- developing learning and assessment activities that require students to construct knowledge by engaging with authentic problems based on 'real world' experiences;
- using feedback and formal evaluation to implement improvements to teaching and learning approaches;

seems to be closer to the needs of the Net Generation. Yet, the new learning theory has too long remained just a new concept, while traditional education is still in action. The digital culture has developed in the Generation Next certain skills in key areas related to education. In order to find out to what extent our university is ready to meet the needs and expectations of these new cohorts of students and to find out whether university education is still relevant for them, we administered the following questionnaire:

1. Is academic education still important? If so, why?
2. Do you take a certain amount of time to study to achieve your academic goals?
3. Do you rely on the Internet to get your info for your academic projects?
4. Is the relation teacher-student still important to attain academic performance?
5. Should academic instruction move from the classroom to online education?
6. What would be the benefits of online education for you?
7. How long should a class last to be efficient and not boring?
8. Do you think that academic curriculum is relevant for your education?

The respondents were a sample group of 30, 3rd Year students in Marketing. The overall results were very encouraging: all the students think that academic education is still very important, for the background of information provided and for the good prospects for a well-paid job. All the students confirm their reliance on the Internet information for their assignments. All the students still believe in the teacher-student face-to-face relationship as very important in the academic development and achievements of a student. Online education is not an alternative to classroom education in their opinion; there were opinions in favour of a 1h. class, but most of the students think that a 1h1 class is able to cover all the information and practice needed for university education. So, the question is: if the duration of the class is not the actual problem for the lack of attention or the absence of the students from the class, what is the cause of the empty classrooms in all universities? The students' answers show an unchanged trust in the benefits of academic education, a non-denial of traditional teaching, the importance of networking both with the academic staff and among them. The kind of benefits provided by the Internet seem not to cover all the needs, societal and developmental, of the students. A few respondents pointed out that besides the academic disciplines they deem to be of good use for their future career, they would like to be involved in extra-curricular activities. This questionnaire revealed a propensity for social networking and interest in whatever happens around them

which contradict certain commentaries: ‘they are not as socially adept as generations that came before them (social networking doesn't count!), which can lead to potential misunderstandings in classrooms and workplaces’ (Morgan Brickley, 2009, *Communicating with GenerationY*) or: ‘The colossal World Values Survey shows that only one-third of young people across Europe are interested in politics, and three-quarters said they did not think politics was important for their lives. Only a minority of young people were shown to have actually engaged in politics – 28 percent had signed a petition, 22 percent had attended a demonstration, and nine percent had joined boycotts. Only six percent belonged either to a political party, a trade union, an environmental organization, or a professional association’ (Kaila Krayewski, *Generation Y and why they matter*, 2009). There has been widespread fear that they are disengaging from politics, instead tending to focus on their own immediate surroundings, while blocking out seemingly distant problems. But it seems that this generation, born during the economic boom, but struggling to make a way during the economic crisis, is eager to be involved in the community life, because they have something to offer. As compared to their predecessors, they may not just listen and execute, but force a change in the contents of things. They seek new responsibilities because they believe in their worth and efficiency.

As we design curricula, it is important to consider the framework of these learners. They have been exposed to multimedia entertainment but they still cherish the values of traditional education. They expect to be entertained as they learn. To hold their attention, we may need to consider having traditional lectures comprise a smaller part of the overall curriculum. Active-learning experiences, such as role playing, may be well embraced by these learners and may help them improve their communication skills in negotiation, mediation, counseling.

Generation Y and the job market

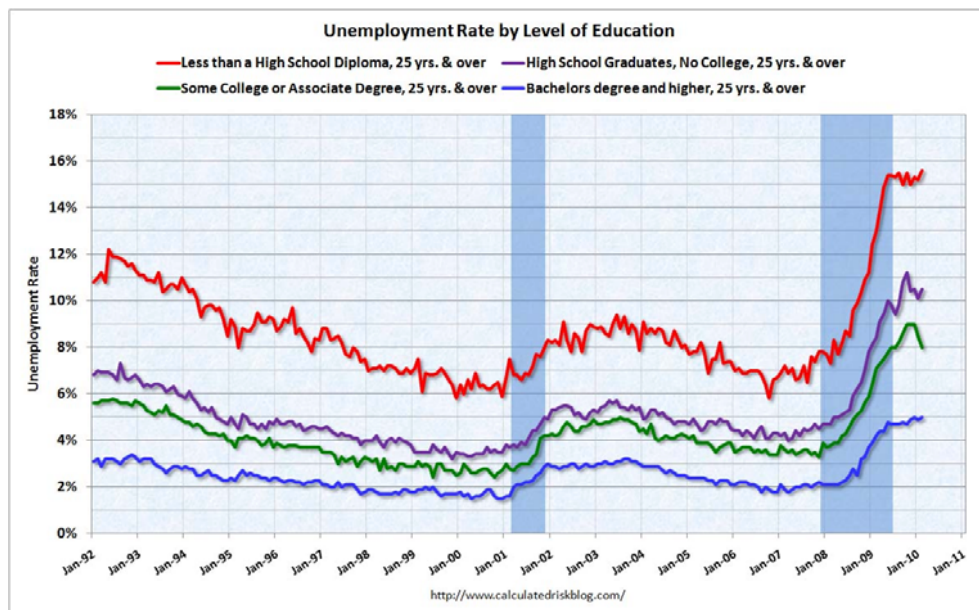
“Generation Y is much less likely to respond to the traditional command-and-control type of management still popular in much of today’s workforce,” says Jordan Kaplan, an associate managerial science professor at Long Island University-Brooklyn in New York. “They've grown up questioning their parents, and now they're questioning their employers. They don’t know how to shut up, which is great, but that’s aggravating to the 50-year-old manager who says, ‘Do it and do it now.’ ”

They are both high-performance and high-maintenance, say the employers. They want to work but they do not work to be their life. They taking their place in an increasingly multigenerational workplace. Is that speak-your-mind philosophy uncomfortable for today’s employers?

Unlike boomers who tend to put a high priority on career, today’s youngest workers are more interested in making their jobs accommodate their family and personal lives. They want jobs with flexibility, telecommuting options and the ability to go part time or leave the workforce temporarily when children are in the picture.

They walk in with high expectations for themselves, their employer, their boss, the employers say. If this may be the case of the US GenY or the young generation of the developed countries of Europe, in Romania, the members of the new generation have lowered their expectations to adapt to the scarce job market, and yet it seems that it is not enough! The economic crisis has reshaped their work style and exigencies.

While the statistics in a few developed European countries show the following, in point of the unemployment rate per education level:



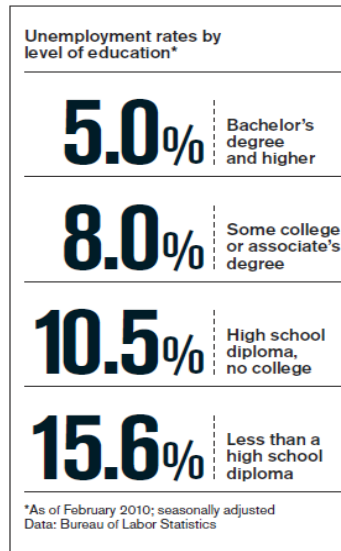
I find it interesting to see that the typical unemployment rate for someone with a college degree is only about 2-3%.

And in the USA:

The unemployment rate in the United States was last reported at 9.40 percent in December of 2010. From 1948 until 2010 the United States' Unemployment Rate averaged 5.70 percent reaching an historical high of 10.80 percent in November of 1982 and a record low of 2.50 percent in May of 1953. The labour force is defined as the number of people employed plus the number unemployed but seeking work. The nonlabour force includes those who are not looking for work, those who are institutionalised and those serving in the military. This page includes: United States Unemployment Rate chart, historical data and news.

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2010	9.70	9.70	9.70	9.90	9.70	9.50	9.50	9.60	9.60	9.60	9.80	9.40
2009	7.70	8.20	8.60	8.90	9.40	9.50	9.40	9.70	9.80	10.10	10.00	10.00

Employability: The more educated you are, the less likely you are to be out of work.



In Romania, Generation Y is 15% of the total population and almost 40% of the employed population. The unemployment rate is over 14% (in October 2010) with the young college generation (double as compared to the rest of Europe). It seems that the above slogan, valid for the USA, ‘the more educated you are, the less likely you are to be out of work’ does not work in Romania!

Conclusion

Generation Y prefer learning that provides interaction with their colleagues and that is relevant and directly applicable to them, to their future career. They want to know upfront what is expected from them and what criteria are used to evaluate their performance. In spite of their ‘addiction’ to technology, they are in some ways traditional. Their interest in learning is strictly related to a future better paid job and to increase their marketability. Education is a means to this goal. Their view on education is: traditional setting, traditional information, but new entertaining, active and interactive methods. In the current context, when opportunities are so scarce for the GenY group, it is time for the teachers to be all the more supportive, encouraging and resourceful for the education of the young adults and their prospects on this unfriendly job market.

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FRAUD, CORRUPTION IN THE PRIVATE SECTOR AND INTERNAL CONTROL QUALITY

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Abstract

The global economic crunch had a big impact on the private sector all over the world. Media and controllers presented cases of corruption in business and identified special areas where companies, governments, investors, consumers and stakeholders can contribute to stop fraud and corruption. Controllers and auditors are rebuilding public trust in the accounting profession, in order to provide high-quality training, regulation, specialist knowledge and professional advice.

Fraud and corruption are strongly connected in the private sector and the level of corruption in the last few years remains very high, despite the efforts of governments to reduce it. It is well known that local and multinational companies are paying bribes in order to win public contracts or benefits. The level of fraud became very high during the economic crunch, due to the globalization and expansion of computer systems. All the data is on-line on the computer systems and has become very vulnerable. Thus, the governments are becoming more interested in securing the computer information and financial data.

Key-words: *fraud, corruption, internal control, business risks, control framework*

JEL Classification: H₈₃, M₄₁, M₄₂

Introduction

We propose in this paper a concise overview of fraud, corruption and internal control for the private sector. Fraud and corruption became more and more common in the economic crunch and people are concerned about identifying methods to eradicate fraud. Although fraud and corruption cannot be fully eradicated, there are some strategies to prevent fraud and to minimize corruption. Based on the controller's experience many companies can do a better job of identifying fraud risks and managing them. In addition to preventing some occurrences of fraud, companies can minimize the damaging effects of fraudulent events and curtail their impact on the corporation.¹ This research is relevant to the fraud and controlling sector because fraud and corruption could be prevented by

¹ Bishop, T. and Hydoski, F. (2009), *Corporate Resiliency. Managing the Growing Risk of Fraud and Corruption*, John Wiley & Sons, Inc., Hoboken, New Jersey, p. 21.

internal control quality. Many business people and controllers are successful in discovering fraud and explaining the mechanism of fraud and corruption in the economic crunch.

The aim of this paper is to present how fraud has grown in the last few years and how the economic crunch has facilitated the fraud context. Corruption is related to fraud and more people are becoming involved in scams and fraudulent techniques. “With respect to fraud and corruption, we believe resiliency means a combination of avoiding problems through appropriate planning and risk management, reducing vulnerabilities such as by using early warning systems, and limiting impact by establishing processes that help effect a quick return to business.”²

Literature review

The paper has based its conclusions on the findings of the most recent papers in this area:

Bishop, T. and Hydoski, F. (2009), *Corporate Resiliency. Managing the Growing Risk of Fraud and Corruption*, who presented the fraud and corruption consequences and a chain reaction resulting in serious corporate harm or failure. They explained how in addition to reducing profits, fraud can lead to a host of other negative consequences, including losses of reputation, customer support, access to capital, brand power, market position, competitive advantage, momentum, innovation, and talent. The same consequences could be found in discussing corruption.

Bryan, K. et al. (2009) in *Cyber Fraud. Tactics, Techniques, and Procedures*, presented the Cyber Fraud: principles, trends, and mitigation techniques, with an extensive survey of the structure and dynamics of both the practice of cyber fraud and the underground community that commits it. They explained the Russian and Brazilian cyber threat environments, with care taken to balance the comparative power of apt generalizations with the specific familiarity available only in an abundance of rich detail. “Within the past 4 years, cyber crime has evolved from a minor nuisance to a major concern involving well-organized actors and highly sophisticated organizations. Simplifying the operations of the cyber criminal helps provide perspective into the general incentives and risks the fraudsters face and, therefore, into their behavioural patterns. Moreover, such understanding is also helpful in determining expenditure on countermeasures and crafting tactics to disrupt the fraud underground.”³

COSO (2006), *Internal Control over Financial Reporting. Guidance for Smaller Public Companies*, is an important study to understand internal control. Thus, the characteristics of smaller companies provide significant challenges for cost-effective internal control. “Among the challenges are: obtaining sufficient

² Bishop, T. and Hydoski, F. (2009), *Corporate Resiliency. Managing the Growing Risk of Fraud and Corruption*, John Wiley & Sons, Inc., Hoboken, New Jersey, p. 21.

³ Bryan, K et al. (2009), *Cyber Fraud. Tactics, Techniques, and Procedures*, CRC Press, Taylor&Francis Group.

resources to achieve adequate segregation of duties; management's ability to dominate activities, with significant opportunities for management override of control; recruiting individuals with requisite financial reporting and other expertise to serve effectively on the board of directors and audit committee; recruiting and retaining personnel with sufficient experience and skill in accounting and financial reporting; taking management attention from running the business in order to provide sufficient focus on accounting and financial reporting”.

Ronald J. Burke and Cary L. Cooper (2009) in *Research Companion to Corruption in Organization* presented causes, consequences and choices to corruption situations. “Individuals are likely to participate in corrupt behaviour or turn a blind eye towards it in order to fit into or belong to the organization, and if they strongly identify with the organization. Organizations with a short-term financial emphasis were more likely to exhibit corrupt behaviours, and in particular, pay and incentive systems were more likely to foster corrupt practices.”

Fraud, corruption and internal control in the private sector

Bishop, T. and Hydoski, F. empirically examined fraud considering it as the tip of the iceberg. “Since the *Crash of 2008* led to economic conditions softening dramatically around the globe, fraud risks for businesses appear to be on the rise. A slowing economy may increase pressure on corporate executives to meet performance goals set in rosier times, or to demonstrate that the current executive team should be retained by shareholders. Individual managers may feel a much greater risk of job loss than usual, potentially making them eager to avoid having to report a performance shortfall in their operating unit.

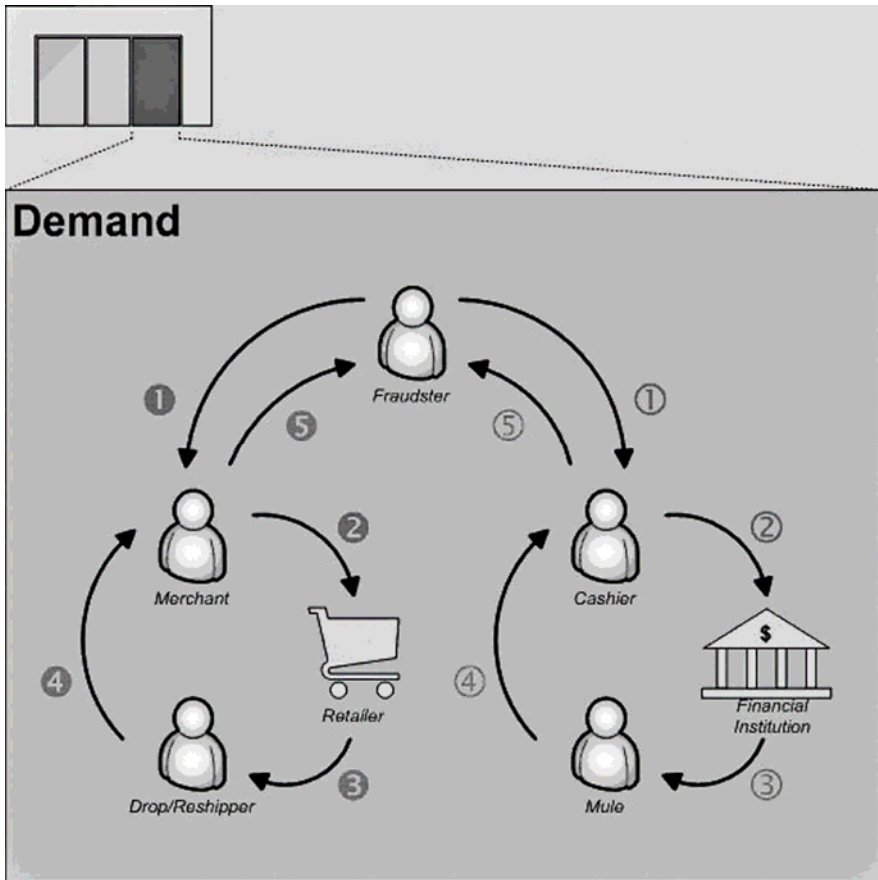
At the same time, employees may be under greater personal financial pressure, whether due to potential foreclosure on their home, the loss of a spouse's income due to layoffs, or other impacts of the economic downturn.”⁴

In early 2008, the UK's Financial Services Authority published its annual Financial Risk Outlook in which it stated that, “Tighter economic conditions could increase the incidence or discovery of some types of financial crime or lead to firms' resources being diverted away from tackling financial crime.”

Bishop and Hydoski explained how managing the risk of fraud and corruption became very important for any organization: “Managing the risk of fraud and corruption requires an ongoing commitment to acquiring fresh knowledge and putting it to work. Quite often this fresh knowledge must be obtained from outside your company. Organized criminal groups constantly evolve new fraud schemes to part companies from their money. Customer and vendor frauds develop new twists, taking advantage of new technologies.” They suggested that “the danger of fraud has been amplified by the ability of fraudsters to leverage modern technologies such as computers and the Internet. Conversely, the ability of companies to monitor business processes for potential fraud and to respond quickly when fraud events occur has been greatly enhanced by the availability of technologies such as anti-money laundering (AML) software, advanced analytics, and enterprise financial management systems.”⁵

Bryan, K. et al. presented the most common fraud in the economic crunch: the cyber fraud.

“Because cyber criminals find easy success in targeting consumers and retail banks, they, until quite recently, have had few incentives to expand their activities; this is changing. Stock manipulation through compromised accounts is gaining in popularity, indicating that the more competent fraudsters are becoming more capable and knowledgeable. Others are finding ways to “cash out” accounts that would previously have been too large (therefore salient) to use once stolen. As a result, brokerage and retirement accounts are new favorites in the fraud underground. Trojan toolkits are rapidly outstripping phishing, and the relatively new threat of harming is maturing into an almost invincible attack vector.”⁶



Source: (Bryan, K et al. (2009), *Cyber Fraud. Tactics, Techniques, and Procedures*, CRC Press, Taylor&Francis Group, p. 25).

Fig. 1. Model of a cash-out process

Bryan, K. et *al.* developed a model of fraud. “Like any other market, the carding underground consists of some resource input (here, account credentials) that is extracted and processed by suppliers (usually phishers), brought to market and retailed by middlemen (carding forum leaders), and finally purchased and consumed by the demand pool (end-user carders). Also reflected in the model shown in Figure 1 are the economic categories of wholesalers, retailers, and independent contractors who provide specialized services to create additional value. In fact, the only serious departure of this model from traditional economic models is the fact that incurring risk (through possession or transmission of illegally held data) is a pervasive source of value.”⁷ The model of fraud explains the process by which criminals are able to translate the stolen credentials into valid currency, or in some cases merchandise, is illustrated in Figure 1.

Bryan, K. et *al.* presented some variants of “cashing out”, but the two most prominent utilize either a “money mule” or a reshipper. In many instances, individuals recruited as reshippers act as money mules after establishing trust, but before the reshipper or mule becomes a victim him- or herself. They explained the steps to perform a scam like that:

1. The fraudster contracts a cashier to perform the financial transaction. The cashier or merchant receives the stolen account credential, the fraudster’s account information, and instructions regarding the amount to transfer.

2. The cashier uses the stolen account to perform a financial transaction with the account’s bank or the merchant uses the account to purchase goods through a retailer.

3. The bank transfers the funds to the mule’s account, supplied by the cashier, or the retailer sends the merchandise to the reshipper’s address, which may be nothing more than a drop site.

4. The mule then transfers funds to the cashier’s account or to another mule to further disguise the transaction chain. When dealing with merchandise, the reshipper forwards the goods to another address, possibly that of another reshipper or that of the merchant.

5. The cashier or merchant then delivers the funds or merchandise to the fraudster, keeping a certain portion as compensation for his or her service.

In order to prevent any kind of fraud we need to respect the internal control over financial reporting. Thus, management control became important to stop the fraud and corruption. Internal control quality could be relevant to any organization. Thus, “over the past decade, organizations have invested heavily in improving the quality of their internal control systems. They have made the investment for a number of reasons, notably: (1) good internal control is good business – it helps organizations ensure that operating, financial and compliance objectives are met, and (2) many organizations are required to report on the quality of internal control over financial reporting, compelling them to develop specific support for their certifications and assertions.”

Fraud is strongly connected with corruption and the economic crunch accelerated the rhythm of corruption and opportunities. Corruption means violating the public norms and trust.

Burke and Cooper presented how people are exposed to corruption and temptation. “For decades, many studies have investigated the effects of corruption and the unethical acts of government and big business. People around the world, in small and large countries alike, have been exposed to a barrage of examples of corruption and unethical acts. Research has attempted to understand these acts by examining such topics as ethical decision making and by considering possible antecedents of corruption. Here we address related issues by way of a dual focus: (a) by considering ethics perceptions as a key antecedent of corruption (namely, because corruption can spread if unethical acts come to be perceived as acceptable), and (b) by presenting a statistically efficient way of investigating perceptions of ethical misbehaviours.”

Only a strong internal control could prevent any form of corruption and fraud. Olsen explains how a recent survey performed by a global business consulting firm discovered that only 50 percent of senior corporate executives are “highly confident” that business control systems are managing their organizations business risks effectively. “The survey also revealed that fewer than 10 percent of these senior executives rated their control systems as “excellent” in providing early warning signs to catastrophic risks. In an increasingly competitive global marketplace, this could mean trouble for U.S. businesses competing on an uneven international playing field, where foreign competition does not have to adhere to such laws as the Foreign Corrupt Practices Act (FCPA).”

Olsen thinks that an effective anti-corruption program must have the foundation of a strong code of conduct that communicates the organization’s position on conflicts of interest, bribery, kickbacks, confidentiality of proprietary information, and compliance with all applicable laws and regulations. “To be effective, the program must have the support and oversight of top management. The communication of the organization’s policies and procedures is also critical in this type of program. Employees need to be constantly apprised of industry trends and new regulations through ongoing training programs.”

Conclusion

Fraud and corruption have adopted new techniques since the development of the computer and the Internet. Also, the economic crunch presented a new context for fraud and corruption. “Corruption has a corrosive impact on both overseas market opportunities and the broader business climate. It also deters foreign investment, stifles economic growth and sustainable development, distorts prices, and undermines legal and judicial systems. More specifically, corruption is a problem in international business transactions, economic development projects, and government procurement activities.”

The globalization and Europeanization created new opportunities for scammers and fraudsters. Thanks to the rapid emergence of global markets, the rise of high-speed digital information technologies, and the development of the Internet, fraud can now evolve, mutate, and spread with mind-numbing speed. A special cause could be the free circulation of the people inside European Union and

overseas, as well. New young researchers are trying to develop new Internet techniques to improve the fast growing transactions and businesses all over the world.

Bishop and Hydoski explained how managing the risk of fraud and corruption requires an ongoing commitment to acquiring fresh knowledge and putting it to work. They highlighted how quite often this fresh knowledge must be obtained from outside your company. Usually, organized criminal groups constantly evolve new fraud schemes to part companies from their money. Thus, customer and vendor frauds develop new twists, taking advantage of new technologies. “Entering new markets creates new business opportunities, but also new risks that may be outside your previous experience. You will need a proactive strategy for staying abreast of new fraud risks as they emerge, and a process for sharing critical knowledge across the company as it becomes available. Ignorance, whether accidental or willful, will not help your company manage the risks of fraud and corruption.”

In order to stop the growing fraud and corruption we need to enforce internal control and to develop auditing procedures. Internal control is one of the most important sources of audit evidence.

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CRISIS IMPACT ON THE ROMANIAN ECONOMY COMPARED TO EUROPEAN UNION COUNTRIES

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Abstract

The second half of 2008 marked, in Romania, the entry into technical recession, and during the following periods of time the economic contractions led to a widespread crisis in almost all sectors. In the first half of 2010, Europe recorded the first increase, more or less timid, meaning leaving the recession, but in Romania we continue to record an economic contraction – in other words, the fourth quarter of crisis. Business analysts and business people consider that this setback was caused by the lowering of the population's purchasing power and government measures taken or just announced, in the first half of 2010, as well as the bankers' reluctance to lend to firms.

Key-words: *purchasing power, average gross wages, trade deficit, unemployment rate*

JEL Classification: E₂₄, F₄₃, J₃₁

Literature review

Silviu Cerna (former member of the Board of BNR), in January 2009, in a weekly newspaper, talks in an article, about: the economical growth limits of the American model based on credit and consumer demand, the strong deregulation of U.S. financial markets, excessive growth of loan volume to increase bank profits. Silviu Cerna believes that the decline in stock market quotations is likely to have a moderate impact on the process of corporate financing, the financial sector in Romania being strongly dominated by banks.

Iulian Dobra (Paris School of Economics) wants to find out why some countries experienced larger GDP declines than others in 2009.

Simona Montagnana (2010) makes an analysis of the distribution of unemployment: geographically, on education level, on gender, age – as a result of the crisis. The economic and financial crisis of the labour market was characterized by a strong reduction of employment and therefore increasing the number of unemployed. The most affected sectors are: the construction sector, cars and furniture as well as sectors that are consumption-related.

1. Romania – general economic framework

Businessmen, especially the manufacturers of consumer goods complain about decreased purchasing power of the population as the main factor threatening the existence of their companies. And what they felt in an acute way started to show in official statistics. More specifically, the month of June 2010 was the 11th month of the last 24, and seventh in the last 12, in which price growth has exceeded that of income.

Constant price rises, and lowering wages are a spreading phenomena in all key areas of the economy. From July 1, VAT increased by 24% and with it the inflation, to 7.5%. Over the first six months of 2010, both unions and employers have repeatedly warned that the drop of purchasing power will have a domino effect in the market. The buying inability of consumers causes the firms' incapacity to produce.

In place of real crisis measures, urged by the employers, the Government chose to implement an austerity program, reducing wages and even the jobs in the public sector.

This was followed by introducing tax measures that will affect, in fact, the whole business environment, instead of facilitating or, at least producing tax relief, which means that the entrepreneurs came up with some increased costs.

Table 1

Average number of pensioners and average monthly pension and welfare recipients

	Years	Average number of pensioners –thousands –		average pension		Trim. I 2010 in % / trim. IV 2009
		Trim. I	Trim. IV	Trim. I	Trim. IV	
Total - Retirees	2007	5768	5725	356	466	100,4
	2009	5688	5694	660	707	
	2010	5695	-	710	-	
Retired social insurance, of which:	2007	5748	5707	356	466	100,4
	2009	5674	5682	661	708	
	2010	5683	-	711	-	
Retired state social insurance	2007	4641	4647	364	483	100,1
	2009	4693	4745	685	734	
	2010	4761	-	735	-	
Retired farmers insurance	2007	958	908	140	206	100,3
	2009	824	777	291	307	
	2010	762	-	308	-	
Retired social insurance records of the State Secretariat for Religious Denominations	2007	2	2	313	361	100,4
	2009	2	2	537	551	
	2010	2	-	553	-	
Pensioners registered with the Insurance House Lawyers	2007	2	2	925	1172	118,3
	2009	2	2	1481	1546	
	2010	2	-	1892	-	
Recipients of social welfare –type pension	2007	3	3	104	131	99,5
	2009	2	2	183	192	
	2010	2	-	191	-	
Retired IOVR	2007	17	15	237	235	100,0
	2009	12	12	245	244	
	2010	10	-	244	-	

Source: INS, Monthly Statistical Bulletin, 6/2010, 1/2009

The value of the average pension has doubled in the past three years, from 356 lei in the first quarter of 2007, to 711 lei in the first quarter of 2010 and the number of pensioners has decreased over the same period with 73,000 people. Of the total number of pensioners in the first quarter of this year, 83.77% are retired employees of state social insurance, compared with the 80.74% share recorded 2007. Pensioners of farmers insurance represent 13.40% of the total number of pensioners in the first quarter of this year, compared with 16.66% in spring 2007. The other few thousand people who fall into the category of pensioners are represented by groups in the table above, with appropriate developments from 2007 until the first quarter of 2010.

Table 2

Average gross earnings

	2008			2009			2010	
	January	June	Dec.	January	June	Dec.	January	June
Total	1637	1738	2023	1839	1887	2023	1967	1951
Agriculture, forestry, fishing	1182	1211	1412	1311	1308	1610	1389	1399
Total - Industry	1379	1583	1836	1615	1745	1983	1780	1905
Mining and quarrying	2361	2760	3234	2822	3056	3667	3124	3415
Manufacturing	1239	1396	1602	1427	1544	1709	1561	1697
Production and supply of electricity as heating, gas, steam	2538	3354	3821	3132	3378	4122	3443	3510
Construction	1250	1438	1615	1463	1517	1650	1549	1573
Wholesale and retail	1257	1378	1619	1491	1517	1664	1540	1572
Transport and storage	1711	1863	2337	1963	1976	2189	2053	2154
Hotels and restaurants	916	939	1107	1006	1041	1086	1098	1057
Telecommunications	2798	3684	4192	3659	3755	4724	3828	4275
Financial intermediation and insurance	3671	4069	5323	4042	4912	5268	4325	4544
Real estate	1527	1646	2040	1727	1703	1942	1867	1829
Public administration and defence	3289	2968	3298	2761	2786	2908	3091	2697
Education	2369	2043	2235	2354	2166	2004	2312	2045

Source: INS, Monthly Statistical Bulletin, 6/2010, 1/2009

Regarding the average salary, this dropped in January 2008-June 2010, only in public administration, defence and education. In public administration and defence the reduction was of 18% and 14% in education, during that period. The most spectacular increases in average gross wages were recorded in the fields of: telecommunications – 52.78%, financial intermediation and insurance – 23.78%, and at the opposite pole: agriculture – 18% and the hotels and restaurants – 15% growths occurred in January 2008-June 2010.

Table 3

IPC and Unemployment rate

Country	IPC, 2005 = 100			unemployment rate, total %		
	Sept. 2009	Jan. 2010	July 2010	Sept. 2009	Jan. 2010	July 2010
Romania	127,64	131,66	136,45	7,2	7,4	7,4
Hungary	125,20	127,25	130,66	10,6	11,2	10,3
Bulgaria	132,48	134,15	136,74	7,4	8,9	9,7
Germany	107,10	107,30	108,60	7,6	7,3	6,9
Greece	112,99	113,59	118,02	9,8	11,0	-
Latvia	137,92	136,16	138,70	18,5	20,1	-
EU (27 countries)	109,83	110,08	111,79	9,3	9,5	9,6
			Estimate Spain	19,0	19,1	20,3

Source: Eurostat, September 2010

The data presented in Table 3 shows that only Germany was able to reduce unemployment, while in other EU countries it has been growing, which determined 27 countries to reach an unemployment level rate of 9.6% in July 2010.

2. Positive results in the EU

At the EU level, only a few states – including Romania – had an economic decline in the second quarter, compared to the same quarter of 2009. The EU economy had an overall growth of 1%. The same advance was registered in the euro area, according to preliminary data of Eurostat. From the 18 member states that submitted data for the second quarter, only Greece has recorded an economic contraction between April and June (-1.5%). The largest increases in GDP occurred in Lithuania (+2.9%), Germany (+2.2%) and Estonia (+2.0%). Among member states for which the second quarter GDP figures are available, only five have been performing worse than the same quarter of 2009. These include, in addition to Romania, Bulgaria (-1.5%), Greece (-3.5%), Spain (-0.2%) and Latvia (-3.9%).

The German economy grew with 2.2% in the second quarter, the best result recorded in the last 23 years. According to officials in Berlin, it is due to investments and exports, and GDP could advance much above 2% this year, says Reuters.

The German GDP was also 3.7% higher in the second quarter of this year compared to the same period of last year, after an annualized expansion of 2.1% in the first three months.

Table 4

Minimum wage (per month, as of 1 January)

	currency			euro		
	1999	2004	2009	1999	2004	2009
Belgium	1074	1186	1388	1074	1186	1388
Bulgaria	64	120	240	33	61	123
Ireland	-	1037	1462	-	1037	1462
Spain	416	537	728	416	537	728
Hungary	22500	53000	71500	89	200	270
Malta	475	543	635	462	541	635
Netherlands	1064	1265	1382	1064	1265	1382
Romania	35	280	600	28	69	153
UK	608	761	914	866	1084	1010
USA	893	893	1135	762	727	844

Source: Eurostat yearbook 2010, European Commission

The best paid employees in the year 2009 are, according to data from the 2010 Yearbook of the European Commission, those of Ireland, Belgium, Netherlands and United Kingdom, and the last three places are occupied by Hungary, Romania and Bulgaria.

3. Romania in 2010

Once it received loan's from the IMF, Romania cut in July, 25% off the salaries of civil servants (1.3 million people) and it reduced with 15 % various social benefits.

The government is also trying to reduce the pensions after VAT rose with five percentage points to 24 percent. By reforming the pension system, the remuneration will be based on their many contributions and pensions will be reduced by up to 10 times. The payment of 1.9 billion Euros that the state owes to private companies are tasks that must be respected by the IMF, which has already provided 13 billion Euros. Massive layoffs of civil servants are already on the table as a possibility – it can be up 200,000 people.

The trade deficit reached 5.36 billion Euros after the first seven months of the year, slightly above the level recorded in the same period last year, although in July exports continued to grow at a pace faster than imports.

In January-July period, exports increased with 25% in Euros compared to with the same period of 2009 to 20.56 billion Euros, exceeding the 19.6% advance payment of imports, which totaled 25.9 billion Euros, according to the National Institute of Statistics.

The catching up trend started last year, when both exports and imports have declined in every month but the reduction of imports was almost constantly stronger than that of exports.

In the first seven months of this year, the major shares in the structure of exports and imports were held by groups of machinery and transport equipment (42.9% to 35.2% in export and import) and other manufactured goods (34.3% export and import 30.9%).

In July, exports grew with 30.9% and imports with 28.1%.

In the first half of 2010 compared to the first six months of 2009, investments in national economy decreased with 18% to 22.48 billion lei. In agriculture and construction sectors were the ones with the least materialized investment, businessmen relying on the autos industry trade components.

Romanian agriculture should be a gold mine, but it's just an aside (this is how it can be characterized literally and figuratively), taking into account the fact that it attracted only 5% of the investments in the first six months of 2010, according to figures provided by INS.

Moreover, approximately 20%, from 1.5 to 2.5 million hectares of cultivatable area of the country isn't used. Investments could be made, but bureaucracy and excessive parceling of land proves to be an obstacle.

The construction sector achievement is small also – it attracted only 17% of the investment. In contrast, the industry attenuated the collapse of investment in the autochthonous economy in the first six months it has attracted 38% of total investments and 36% commerce and services sectors (light industry and semi light, such as auto or electrical components have been the subject).

Regarding the construction sector, developers say that there is nothing that can be done without bank loans, and the loans market is almost completely frozen.

Conclusions

At the EU level, only a few states – including Romania – had an economic decline in the second quarter, compared to the same quarter of 2009.

Only Germany was able to reduce unemployment, while in other EU countries it has been growing, which determined 27 countries to reach an unemployment level rate of 9.6% in July 2010.

According to a study by UNICEF and the World Bank, the number of people living in poverty in our country reached 1.59 million in 2009, 370,000 more people than in 2008.

The problem of rural poverty must be taken seriously, especially because is a problem affecting 47% of the population, according to data published in the carrying out in the 2002 census.

The trade deficit recorded at the end of July 2010 exceeded the one recorded in 2009 and investment in the national economy decreased by 18%.

Our country has more than 40% of the population employed in agriculture, while in EU countries, only Greece and Portugal than 10%.

The average salary theoretically kept pace with food price increases, until the spring of this year. Practically, the wages growth was supported by year-end bonuses, arrived late to the budget.

Romania ranks sixth among foreign investors in attractiveness, many of them deciding to postpone investment projects.

In the first half of 2010 compared to the first six months of 2009, investments in national economy decreased to 22.48 billion lei. In agriculture and construction sectors were the ones with the least materialized investment, businessmen relying on the autos industry trade components.

The economic crisis is not over yet, and its negative effects make their presence felt more and more clearly, from month to month.

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III. QUALITATIVE ANALYSIS OF CERTAIN ECONOMIC VARIABLES

MAS APPROACH TO POLITICAL PROSPECTION AND ALLIANCE ANALYSIS

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Abstract

The generalization of the Lotka-Volterra model (GLVM), to the N agents case is used in this contribution. The model is applied to model party alliances before election processes, as well as to prospect the final horizons of different candidates in Argentinian future elections which will take place on October 2011. The parameters of the model are setting using public polls. Romanian polls are used to validate the ansatz about the meaning of the parameters considering the available data, as this election results are known.

Key-words: *Multi Agent Systems, Politic analysis, Behaviour; Socio-economic uncertainty, New paradigms*

1. Introduction

The high complexity of human individuals, and the relations among them, or demand to apply new methods to describe the continuous change of social paradigms characterizing contemporary society [1,2] [3], [4]. In this contribution we applied a generalized Lotka-Volterra (L-V) model applied some years ago by [5], to describe the competition between web sites, and more recently to find hung scenarios and contrarians dynamics in sociology [6], to analyse, modeling and forecast actual voting process. One problem is to define which data (polls) are represented by the model parameters, as well as if the *ansatz* we made, is or not correct. In order to do so we deal with public polls (newspapers, wikipedia) for two different countries Romania and Argentina. It deserves a special paragraph to explain why this two countries. There are several reasons to do so, among which we can enumerate the following: a) both democracies are relatively young (Argentina since 1983, Romania, 1989), b) Argentina is a presidential and Romania a semi presidential representative democratic republics.

¹ Please note that the LNCS Editorial assumes that all authors have used the western naming convention, with given names preceding surnames. This determines the structure of the names in the running heads and the author index.

Meantime the President of Argentina is both head of state and head of government, Romania has President and Prime Minister Charges; c) Both have Senate and Chamber of Deputies. In the Argentinean case the Senate President is the Nation Vice President and they are elected as a whole. Instead in Romania President and Prime Minister may come from different parties. Once elected the President remains independent. d) Both electoral systems have ballottage, and e) probably the most important there are more than two or three structured parties which give rise to a game of alliances. Briefly, in this contribution we look for the political horizons of the members of a given political system, in terms of the

L-V model. In this sense the different candidates are “agents” of the system, whose chances are measured by polls. No political considerations are taken into account, neither the simulations to be presented reflects political opinions of the authors. Only public information has been used.

2. The model

The model is written as [5]

$$\dot{s}_i = \alpha_i s_i (\beta_i - s_i) - \sum_{i \neq j} \lambda(s_i, s_j) s_i s_j \quad \text{for } i = 1, \dots, n \quad (1)$$

For the present case, s_i , is the probability of winning elections for the candidate i (agents) at each time. The summation the s_i is equal 1, as we want to have probabilities. The parameters of the model deserve special attention. The α_i parameter, interpreted here as the growth rate of the candidate i . The meaning of this parameter is associated with how the positive image of a given candidate increases or decreased. So, making the differences between the different polls along time, the variation of the positive image can be measured and a value to the α_i parameter can be assigned. However polls have been not designed with enough refinement for allowing to assign values to this parameter. For this reason the neutral assignment for this parameter is $\alpha_i = 1$, for all the candidates. The β_i for candidate i capacity to satisfy the society requirements (vote capture ability). The $\lambda(s_i, s_j)$ are here reduced to $\lambda(i, j)$. Their values represent the strength of the competition (maximum +1) or collaboration (maximum -1), and are fixed at the initial time of the simulations and remain fix along the iteration process, in the present approach. Notice that $\lambda(f_{i,f_j})$ is a matrix, and in the present case only +1 (competition) and -1 (collaboration, alliances) values are considered for i, j agents. Further details for $\lambda(f_{i,f_j})$ matrix varying with time are given in [3]. The initial condition of each agent is taken as the inverse of the negative image unless another criterion is explicitly mentioned.

The Romanian case. As we have said in the introduction we will use the 2009 Romanian electoral process to validate the use of the polls’ information we are doing. After validating our *ansatz* about the meaning of the L-V model in a highly competitive system, like the political one, we will used for analyze the

future 2011 electoral process according with the available data, extracted from newspapers. We will consider for the Romanian case, the CCSB July 2009, far from the elections which took place on November 26, 2009 and ended on December 6. As we know the final results of that election, as well as the alliances took place, we can “prospect” chances of different alliances, and compare them with the result. So the mechanisms involved in the L V model can be validate. Let us start with the following data Poll CCBS July 2009 (public data [7]):

Table 1

Poll CCBS July 2009

Candidate	Positive image	Party
Sorin Oprescu	0.48	Independent
Traian Basescu	0.37	PDL
Crin Antonescu	0.35	PNL
Theodor Stolojan	0.34	PDL
Mircea Geoana	0.32	PSD
Emil Boc	0.27	PDL

According with Table 1, we prospect the horizon of each agent of the Romanian political system, assuming the following considerations: a) positive percentage represents the positive image, and it is represented by the β_i parameter; b) the remaining percentage is the negative image and is used to determine the initial conditions of each agent, taken them as the inverse of the negative image. Simulations, as well as initial conditions have been normalize to have probabilities. So: s_i are: 0.135, 0.164, 0.169 0.171, 0.1770 and β_i are: 0.480, 0.370, 0.350, 0.340, 0.319, 0.270, respectively. The $\lambda(i, j) = +1$ for all the simulations (competitive scenario), unless some alliance is explicated. The β_i , interpreted here as the growth rate of the candidate i are equal to + 1, in all simulations, as we have explained in previous Section. Numerical simulations according with data from Table 1 are plotted in Fig. (1).

Besides it is possible to consider the so called **Cases A and B** of the same poll, with identical considerations as above. The difference between both is the inclusion or not of one of the Romanian system of political agents.

Simulations with data from Table 2 data are shown in Fig. (2). The **Case B** of the Poll CCBS July 2009, is given in Table 3, and simulations with this data are plotted in Fig.3. Parameters in Fig.3 are normalized to 1: $s_i(0)$ are: 0.296, 0.250, 0.238, 0.214 and β_i are: 0.340, 0.221, 0.180, 0.0900, respectively. Fig.(1), Fig.(2) and Fig.(3) have been done using very sharp data, as only the positive image was measured, so the negative image is considered as I-positive image. However it is easily seen from them that: a) the assumption that positive image can be used as

β_i values is correct; b) always there is only one winner player very far from the rest if some sort of collaboration (alliance) is not constructed among the rest.

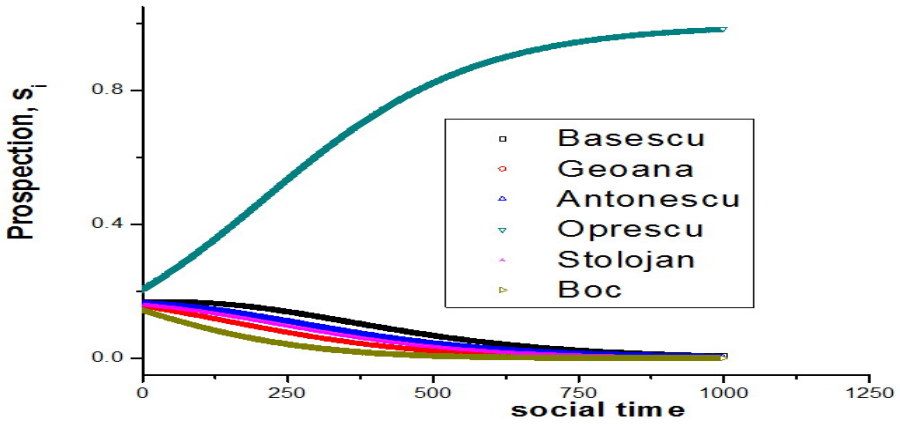


Fig. 1. *Prospection according with parameters given in table 1*

Table 2

Poll CCBS July 2009 Case A

Candidate	Positive image	Party
Traian Basescu	0.37	PD-L
Mircea Geoana	0.242	PSD+PC
Crin Antonescu	0.207	PNL

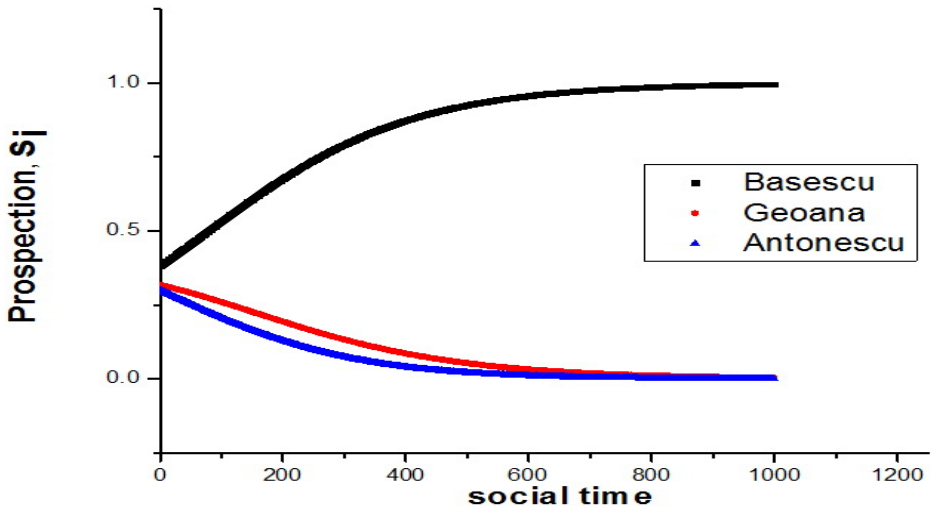


Fig. 2. *Prospection according with parameters given in table 2*

Poll CCBS July 2009 Case B

Candidate	Positive image	Party
Traian Basescu	0.34	PD-L
Mircea Geoana	0.221	PSD+PC
Crin Antonescu	0.182	PNL
Sorin Oprescu	0.09	Independent

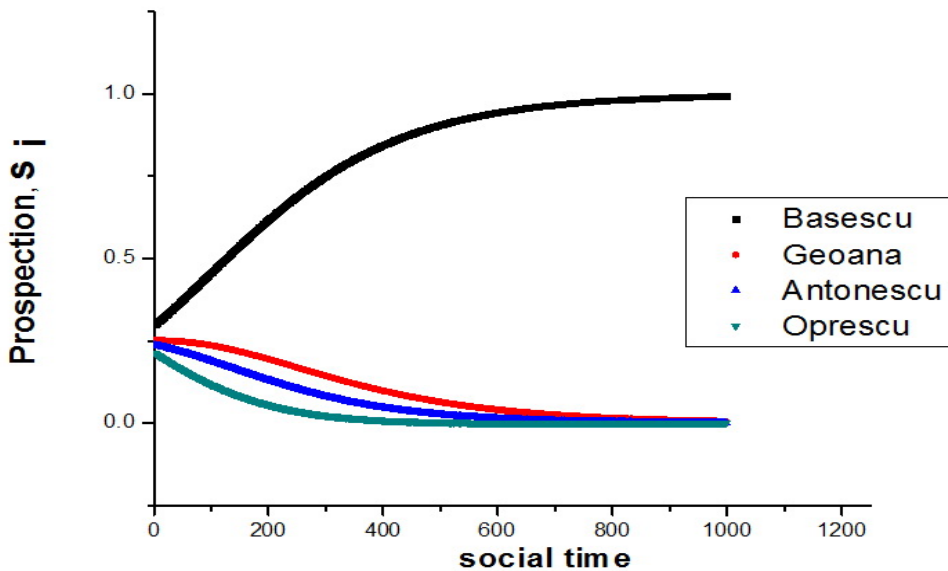


Fig. 3. Prospection according with parameters given in table 3

Alliances. Considering the facts outlined in the previous Section, some alliance should be constructed. From Fig.(1), Fig.(2) and Fig.(3) it is possible suggest that political agents can decide some sort of alliance. From Fig.(2) the alliance to have a chance is unavoidable, which means that an alliance between PSD and PNL between PSD and PNL will be taken place. On the other side, Table I suggests that the positive image of Sorin Oprescu allows this candidate to try to keep aside any alliance. Following the data of Tables 1, 2 and 3 we can imagine an scenario where: $s_i(0)$ are: 0.5, 0.2, 0.2, 0.1, and β_i are: 0.370, 0.350, 0.320, 0.480. The initial conditions are estimated considering the differences in the horizons plotted in Fig.(3) and positive images according to Table I for the candidates mentioned in Table 3. Alliance between PSD and PNL are taken into account through the $\lambda(i, j)$, parameters. This scenario is plotted in Fig.(4).

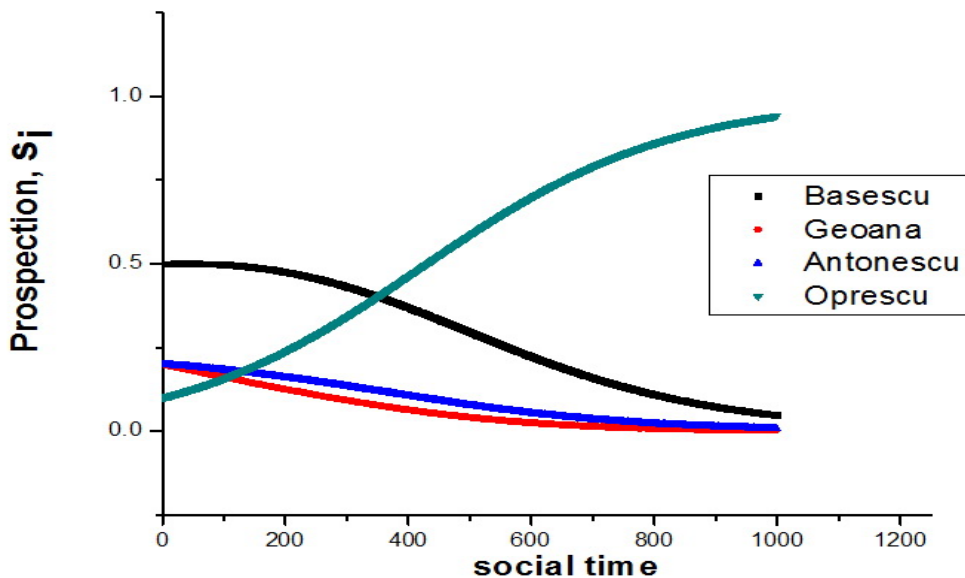


Fig. 4. *Prospection for the following parameters (see text) $s_i(0)$ are: 0.5, 0.2, 0.2, 0.1 and β_i are: 0.370, 0.350, 0.320, 0.480*

Learning from Romanian polls. We can select the poll as far as possible to the electoral process. The parameters have been settled as: $\alpha_i = 1$, the growth rate of the candidate, as no more refined information is available; β_i , candidate i capacity to satisfy the society requirements (vote capture ability), the positive image, the $\lambda_{i,j}$ values represent the strength of the competition (maximum +1) or collaboration (maximum -1), and the specific scenario are detailed below figures. These values are fixed at the initial time and remain fix along the iteration process. The initial condition of each agent is taken as the inverse of the negative image, except in case of Fig.(4). As it could be seen since July 2009 Oprescu and Basescu horizons were difficult to reach for the other candidates. When Oprescu is not taken into the simulations, Basescu is able to leave the other candidates far from him. For the other two candidates, even in alliance it is not easy to reach the Basescu's horizon. In Fig.(4), it could be seen that at social time 400 (around September 2009, departing from the July 2009 poll), the Oprescu chances increases very fast. In brief, we consider that our *ansantz* concerning how to connect data with parameters is reasonable and can be used for the Argentinean case.

Prospecting Argentinean elections

Taken into account the validation we made with the correlation between parameter and data polls, we will analyze different scenarios according with a polls made by Management and Fit, (February 9,10 2010, sample 1212 persons) published at [8] February 21, 2010. Argentinean elections will take place on

October 2011. Table 4 shows more details about candidates' images, which are not shown as we restrained the data to good and bad images information. The values for the parameters using the criteria applied in Romanian elections are: $s_i(0)$, 0.258, 0.072, 0.102, 0.093, 0.050, 0.037, 0.090, 0.089, 0.067, 0.1375 and β_i are: 0.83, 0.294, 0.21, 0.229, 0.428, 0.572, 0.273, 0.24, 0.31, 0.156, respectively. Simulations results are plotted in Fig.5. Data of Table 4 are prospected in Fig.5.

Table 4

Poll Management and Fit. February, 2010

Candidate	Good image	Bad image
Hermes Binner	17.8	831
Elisa Carrio	28.8	29.11
Julio Cobos	38.2	21
F. de Narvaez	35.7	22.9
E. Duhalde	17.6	42.8
N. Kirchner	19.3	57.2
M. Macri	30.3	23.7
C. Reuteman	34.4	24
D. Scioli	26.6	31.8
P. Solanas	26.8	15.6

Conclusions

The generalization of the Lotka-Volterra model (GLVM), to the N agents case is used in this contribution. It is applied to model party alliances before election processes, as well as to prospect the final horizons of different candidates in Romanian past elections and Argentinean future elections which will take place on October 2011. The parameters of the model are setting using public polls.

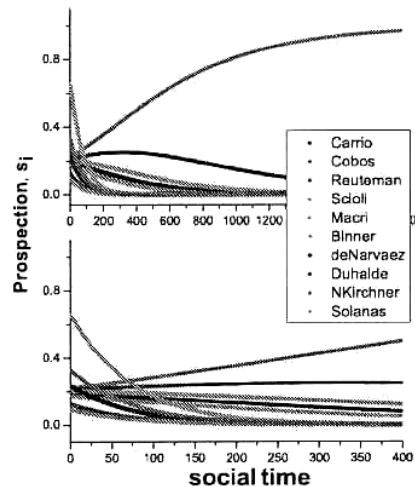


Fig. 5. *Prospection according with parameters given in text. Upper: long time interval. Lower: Short time interval.*

Romanian polls are used to validate the *ansatz* about the meaning of the parameters considering the available data, as this election results are known. The agreement with simulations done with the Romanian case encourages to insist with this approach. Fig. (5) shows Argentinean candidates horizons according to Table 4. At short social times candidates with low bad images have good chances. Long time prospection shows that the candidate with better positive image is the winner as in the Romanian case. At the time this contribution has to be ready, only one public Argentinean poll was available, so, no further protections can be made and simulations related with alliances among candidates would be very speculative as the information is still insufficient.

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THE ECONOMICS OF MEASURING QUALITY OF LIFE BY THE STANDARD GAMBLE METHOD

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Abstract

Of the countless methods for measuring the quality of life (QOL) that have been proposed and analyzed by the vast, multi-disciplinary literature over the past decades, only a select few are alluded to in Romanian scientific circles, and even fewer are actually implemented in practical applications. In adapting existing techniques and engineering a viable measurement system specific to Romania, there exists an important opportunity to re-evaluate the merits and shortcomings of established approaches. As a specific example, we consider the Standard Gamble (SG) method of eliciting “subjective utilities” related to particular health states. The re-evaluation is accomplished from three perspectives: theoretic consistency, interpretability and practicality. It is demonstrated that consistent with economic theory, the appropriate interpretation of SG derived measures is that of a Hicksian change in welfare valuation, rather than a cardinal measure of preferences. A practical consequence of the latter is that SG will necessarily produce a higher QOL value for individuals exhibiting more risk aversion. This leads us to contemplate that in fact SG may be a more appropriate methodology in other contexts, not necessarily health-related, where quality of life may indeed be correlated with the willingness to take risks.

Key-words: *quality of life, measurement, cost-effectiveness analysis, von Neumann-Morgenstern utilities, Romanian well-being index*

JEL Classification: B₄₁, D₈₁, I₁₉

Introduction

The main purpose of this article is to contribute to the methodological development of instruments for the purpose of measuring *quality of life* (QOL) in Romania. By QOL measurement, we refer to the instruments, techniques and scales resulting in a unified quantitative assessment of well-being. Of course, developing methodology that can successfully measure through a minimal set of indicators

something as vast and multifaceted as well-being, is indeed a daunting task. Nevertheless, such methods by now boast a long and rich history of evolution in the scientific and public administration circles.

The remarkable development in this field has undoubtedly been sustained by the persevering interest from a public policy perspective. This is hardly surprising – it is not difficult to imagine how a manageable set of quantities that convey information regarding the well-being of individuals or social groups provides an indispensable tool for guiding and monitoring policy. In fact, the interest has recently reached such a significance for policymakers as to compel French President Nicolas Sarkozy to organize a Commission for the purpose of constructing alternative indicators to replace the (typically GDP-based) figures derived from economic data, that would be more suitable for assessing societal well-being, as well as economic, environmental, and social sustainability (Stiglitz et al., 2009).

While the collection of techniques that have been accumulated over the years is far too extensive to collate in general, several noticeable observations stand out. First, QOL measurement methods may be broadly classified as either representing *objective* social indicators or targeting the assessment of *subjective well-being* (SWB) (Diener and Suh, 1997). The latter approach, which accounts for individuals' subjective experiences, has gained particular notoriety in recent years. Beyond this classification, the development of specific measurement instruments appears to have taken a context-specific path. Given the vagueness and complexity of deriving a common, exhaustive definition of QOL, it seems natural that the various methodological evolutions have adhered to narrower domains where a more concrete understanding of the QOL construct is possible, and the resulting measures are destined for similar, well-defined applications.

To that end, the most prolific work on such methodology is perhaps in the contexts of social indicators analysis and health-care applications. Stiglitz et al. (2009) and Diener and Suh (1997) provide a comprehensive list of references to the relevant social indicators literature. The line of work related to health-care is the primary focus of this article and is discussed extensively in what follows. However, it is interesting to further note that the development and application of QOL measurement methodologies has also extended to other domains. For example, these techniques have been recently utilized in research related to urban planning (Rogerson, 1999; Larson, 2010; Tazebay et al., 2010) as well as to analyzing livelihood under war-like conditions (Giacaman et al., 2007). In all, it is fair to conclude that regardless of the context, the effort is generally quite interdisciplinary.

In contrast, the application and development of such methodology to address the needs specific to Romania's society has staggered considerably. Only a few scattered implementations of known techniques may be identified within the Romanian academic literature. These are almost exclusively restricted to the health-care domain, where a limited set of psychometric methods is considered in assessing QOL related to dental services (Lupu, 2006; Campian et al., 2008),

kidney replacement (Sinescu et al., 2008) and mental health (Ardelean et al., 2009). Public administration use of such tools is virtually nonexistent. Given this state of development, we focus our attention on health-care, where QOL has acquired the nomenclature, *health-related quality of life* (HRQoL).

Nevertheless, our principle thesis is not restricted to the health-care domain, whereas the message we wish to advocate is the following. It is undisputable that the public policy interest in such tools, as discussed above, not only extends to Romania, but is in fact magnified as such given the rough period of transition and growth that currently prevails. Therefore, the question is not *whether* the development of QOL measurement methods, customized to the particularities of the Romanian society, is a worthwhile endeavor. Rather, what is of interest is *how* this development should be approached. To that end, ignoring the existing work on the relevant measurement methodology would be clearly inefficient – *adapting* existing instruments to the Romanian context is undoubtedly a more effective approach than reinventing such methods from scratch. On the other hand, blindly *adopting* existing measurements is likewise unadvisable.

In addressing the latter, our main hypothesis is that inherent to the process of adapting existing techniques and engineering a viable measurement system specific to Romania, there exists an important opportunity to re-evaluate the merits and shortcomings of established approaches. Moreover, this re-evaluation need not be viewed strictly in a negative light. As a specific example within health-care, we consider the *standard gamble* (SG) method of eliciting “subjective utilities” related to particular states of health, in generating direct measures of HRQoL. Such measures have been applied in numerous medical contexts over the past four decades in conjunction with *cost-effectiveness analysis* (CEA) of various health-care related programs.

Consequently, we approach the re-evaluation from three angles. First, we re-examine the *theoretical* basis that founds the generally accepted justification for using SG in health-care. Based on our findings, we re-derive a more appropriate *interpretation* of the measures produced by the SG method as numerical assessments of QOL. Finally, taking together the theoretical and interpretative aspects, we re-evaluate the practicality of the SG method in health-care applications. In large, we find that SG-derived values may be suitable in certain contexts, but should be approached with caution. In this sense, the analysis suggests that such measures may be in fact more fitting in assessing QOL outside of health-care, in domains where until now such methods have yet to be considered.

Health-Related Quality of Life Measurement

Quantitative assessment of an individual’s well-being related to health can be traced back to at least the work of Karnofsky and Burchenal (1949). Since then countless scales, techniques, procedures, etc. have been invented, debated, put into practice as well as rendered obsolete. The main aim of such assessments is to guide decisions regarding health-care initiatives, where a central goal is often improving

patients' quality of life. In this context, existing methodologies may be classified in terms of four major categories: *psychometric scales*, *quality of well-being scales* (QWB), *health utility indices* (HUI) and *utility measurements*.

All methods related to HRQoL assessment are essentially subjective measures. Classic psychometric scales in this context are derived based on information provided by individuals regarding the various dimensions of their health states. In particular, individuals are asked to rate specific aspects of their physical, mental and social functioning. These scores are subsequently combined in a standardized way to produce a unified assessment. In consequence, such psychometric scales encompass two *objective* properties: (i) establishing the dimensions of well-being as well as the specific elements that are relevant for its assessment, and (ii) assigning objective weights to each scored item in arriving at an overall assessment. QWB and HUI add a subjective layer to a typical psychometric scale by modifying (ii) such that the weights assigned to scored items are also provided by the individual. In this respect, QWB/HUI are *hybrid* instruments – forming a bridge between psychometric scales and utility measurements (Revicki and Kaplan, 1993).

In contrast, methods falling within the class of utility measurements treat HRQoL as an *entirely* subjective construct. In this view, the various elements of mental, physical and social functioning define an individual's *holistic* health state. For each individual, in turn, various health states convey different degrees of appreciation or value, commonly referred to as the *utility of the health state*. Hence, utility measurements focus on assessing this final result – the subjective valuation of a particular holistic state of health. Implicit in such procedures is the subjective determination of what the various dimensions consist of, their degree of contribution to the overall well-being, as well as the way in which specific elements of the health states are combined in determining the final valuation. In other words, the individual decides the functional form of the utility as well as input variables; the researcher only observes the outcome of the subjective assessment.

The SG method belongs to the utility assessment category of HRQoL measures. More specifically, it is part of a small set of techniques that generate *elicited utilities*, which is a notably different approach in that it does not require individuals to explicitly rate any aspect of their well-being. Instead, participants are asked to complete certain tasks that *reveal* implicitly the individual's valuation of a given health state. The SG method, along with its close sibling the *time tradeoff* (TTO) method were originally proposed by Torrance et al. (1972) and further popularized by Torrance (1986, 1987).¹ According to Torrance (1986), the methods find their motivation in the economic concept, *willingness-to-pay* (WTP). The

¹ To be clear, while the TTO method is an entirely novel technique attributable to Torrance et al. (1972), the SG method is a direct adaptation of (one variant of) a technique by the same name founded in decision theory (see for example, Farquhar, 1984). The originality, therefore, lies in its application to measuring HRQoL.

latter, it is argued, is particularly suitable for economic appraisal of medical initiatives and CEA. However, its use in the medical field has been generally discouraged by operational difficulties.

Accordingly, SG and TTO provide alternative methods of the same nature as WTP, but with the advantage that they are simpler to implement in practice. Hence, their application facilitates CEA, or more appropriately in this case, *cost utility analysis* CUA. Interestingly, the original conception of the methods establishes SG as the theoretically founded methodology, with TTO being a more practical alternative (in that participants find it easier to relate to TTO tasks, compared to SG tasks), albeit lacking any theoretical underpinning. What is the claimed theoretical justification for the SG technique? Simply, the argument unveils, it yields a *cardinal utility* measure of the individual's *strength of preferences* for a particular health state, which is in direct alignment with modern economic utility theory.

Incidentally, over two decades after its initial appearance, the TTO method was endowed with a theoretical justification by Buckingham and Devlin (2006), who elegantly demonstrated that TTO may be correctly interpreted as a Hicksian change in welfare measure. This interpretation, of course, bears a strong resemblance to WTP: while WTP measures welfare change by quantifying (for example) how much wealth/income an individual would be willing to forego to achieve a better health-state, TTO provides a corresponding measure in time units by quantifying how much (life) time the individual would renounce to achieve the same health improvement. Therefore, TTO is indeed firmly grounded in economic theory. Meanwhile, the cardinal utility explanation supporting SG-derived values has largely prevailed – that its interpretation as a measure of cardinal utility validates the SG method on a theoretical level is systematically accepted by the vast literature that it has inspired.

To an economist, this is of course unsettling. The concept of cardinal utility has been widely abandoned by the majority of economic analysis in favor of the more methodologically sound concept of ordinal utility. While a formal analysis is beyond the scope of the present discussion (interested readers are referred to Fishburn (1989) for an eloquent account of the history of utility theory in economics), we briefly point out that central to this view are two aspects: (i) the axiomization required to establish cardinality in utility has proven to entail formidable problems in relating it to credible consumer psychology, and (ii) cardinality is largely unnecessary for economic analysis in the sense that an ordinal ranking of preferences is sufficient to rigorously establish economic results. From an economics perspective, utility plays little more than the role of an operationally convenient tool – it is a quantitative index representing preferences that greatly simplifies analytical operation (e.g. it is far simpler to maximize a utility function than to search for the most preferred bundle of goods among all possible bundles).

How does the medical care literature arrive at the conclusion that the SG method produces a cardinal measure of an individual's preferences? In essence, by ignoring the first point and dismissing the second as irrelevant. For example,

Torrance (1987) proclaims that “a simple definition of utility is that it is a cardinal measure of the strength of one’s preference.” This declaration is further sustained several explicit assertions that while ordinal utility is conventional for microeconomists, an equally valid view of utility is that of a cardinal valuation of one’s strength of preferences; all that is necessary is a simple switch of axioms. In this way, utility theory is easily extendible outside of the microeconomic context, and all the relevant precautions – such as the impossibility of aggregating utilities across individuals – may be readily ignored.

Unfortunately, the SG method is *not* vested with a proprietary set of axioms that formally establish the claimed cardinality of preferences. Rather, this complication is circumvented by appealing to the axioms of von Neumann and Morgenstern (vN-M), upon which their utility theory is founded (vonNeumann and Morgenstern, 1944). From there, the cardinality is forced directly by tying vN-M utilities to cardinal measures of strength of preferences. Unfortunately, within the context of economic theory, which defines the setting for von Neumann and Morgenstern’s work, no such connection is possible, a fact that is firmly rooted in the economics perspective since at least the 1950’s. Section 3 is dedicated to a more in-depth examination of why this is so.

From a practical perspective, despite their overall popularity, utility elicitation methods have encountered a number of conceptual and methodological difficulties in health-care applications. For example, they sparked considerable controversy regarding the use of utility assessments as a basis for administrative decision making in the medical care practice (Mulley, 1989). On the methodological side, attention is devoted to the *invariance* and *inconsistency* confounding HRQoL measures derived from utility elicitation, where invariance refers to participants exhibiting an equivalent preference for distinct health states, and inconsistency describes situations where individuals yield higher valuations for *clinically* inferior health states. Interestingly, both types of errors seem to be more prevalent in SG implementations.

In this context, the errors are generally attributed to the inability of participants to correctly complete the task at hand. From this premise, focus has been mainly concentrated on either linking participant incompetence to personal characteristics such as education level, ethnicity, etc. (Bravata et al., 2010), or on attempts to design procedures to “correct” for the incompetence (Lenert et al., 2003). The latter mainly involves intercepting “illogical” responses and persuading participants to modify them. Evidently, what constitutes an illogical response is determined by the researcher, presumably based on the *objective* clinical evaluations of the health states. Of course, one might wonder as to the purpose of soliciting purely subjective assessments of well-being, which are required to conform to some predetermined objective evaluative criteria.

Perhaps of the more serious methodological issues identified, is the internal inconsistency of the SG method. In particular, Llewellyn-Thomas et al. (1982) through a series of experiments find that changes in gamble outcomes exert a significant influence on the resulting valuations. Although it has not received as

much attention as the invariance/ inconsistency topic, this arguably presents a far greater cause for concern. In fact, it is by now well known in the decision analysis literature (where the SG method finds its roots) that this and similar types of preference elicitation methods embody a variety of important *response biases*. Accordingly, a comprehensive survey and analysis of this subject is provided in Schwand et al. (2010), most of which has yet to find its way into the relevant health-care literature.

Related to the methodological concerns uncovered and omitted by the health-care community, we wish to emphasize the following. To properly identify, interpret and possibly correct sources of errors in utility elicitation procedures, it is imperative to unchain this methodology from the burden of cardinality. For example, as demonstrated in subsequent sections, invariance in many situations arises quite naturally in the SG context, where only minor errors on the part of the participants are sufficient to generate indifference in revealed preferences. This serves to underline precisely a central theme of this article. The purpose of re-evaluating the theoretical justification of a particular method need not necessarily be to invalidate it. Rather, the more positive motivation as in our case, may be to construct a more accurate interpretation, and in doing so, to allow for a more effective assessment of how and where the methods are best applied, as well as to guide extensions that better account for the various sources of related errors.

The Standard Gamble and Expected Utility Theory

The standard gamble methodology is based on a remarkably simple procedure. In short, the SG task lays out to the participant two alternatives. Under the first alternative, the individual would remain in a particular state of health (guaranteed) for the remainder of her life. The second alternative, however, involves a gamble with two possible outcomes; with probability π the participant would attain perfect health for the rest of her life, while with probability $1-\pi$ instant death would result. The objective, then, is to find the probability π_* at which the individual is exactly indifferent between alternatives 1 and 2.²

To understand how this procedure is related to the vN-M expected utility theory, let us restate a (grossly oversimplified) rendition of the theory's main result, as is fit for our purposes. To this end, consider some possible outcomes y_l, y_m, y'_m, y_u that can be ordered in terms of preferences such that either $y_m \prec y'_m$ (e.g. y'_m is preferred to y_m), $y_m \succ y'_m$ (e.g. y_m is preferred to y'_m) or $y_m \sim y'_m$ (e.g. y_m is indifferent to y'_m), with a presupposed ordering $y_l \circ y_m \prec y_u$, $y_l \prec y'_m \prec y_u$. Under some "reasonable axioms," for any lottery L which results in y_u with probability π and y_l with probability $1-\pi$ (denoted by

² For more details, especially those pertaining to health state description, see Torrance (1986, 1987).

the triplet $L \equiv (\pi; y_l, y_u)$, and similarly L' which results in y_u with probability π' and y_l with probability $1 - \pi'$ (denoted as $L' \equiv (\pi'; y_l, y_u)$), the axioms hold *if and only if* there exists a *real valued* function v defined by

$$v(y_m) = v(L) = \pi v(y_u) + (1 - \pi)v(y_l) \quad (1)$$

such that

$$L \succ L' \Leftrightarrow v(L) > v(L') \quad (2)$$

Hence, directly employing the specification (1) and arbitrarily setting $v(y_l) = 0$ and $v(y_u) = 1$, it is clear that the probability that defines the lottery determines the numerical utility value as $v(h_m) = \pi$.

Mathematically, the SG method is predicated on the foregoing conclusion. The procedure elicits “subjective utility values” by requesting an individual to specify the probability π that establishes indifference between the certain outcome y_m and the lottery L . Consequently, with π and π' obtained in this manner, a comparison of the resulting numerical values corresponds directly to the comparison in preferences between the outcomes y_m and y'_m ; the individual prefers y_m to y'_m if and only if $\pi > \pi'$ is chosen. However, this the extent of expected utility theory's involvement in the SG methodology; the idea that π provides a numerical assessment of an individual's valuation of a particular health state, a value that is moreover comparable across individuals, is *conceptually* predicated on elements beyond the scope of the vN-M theory.

Specifically, two crucial components are incorporated by the SG methodology in extending the vN-M utility index to a quality of life measure:

- 1) $v(y_m)$ is a *cardinal utility measure* in the sense that it measures an individual's *strength of preferences*;
- 2) the outcomes (e.g. y_l, y_m, y'_m, y_u , etc.) on which expected utility theory operates may be reasonably treated as *health states*.

The first conceptual component is claimed explicitly in the literature that promotes the theoretical validity of the method (Torrance, 1986, 1987). The second is implicit in nature. Both components are essential to the justification of SG-elicited utilities as measuring QOL and neither is trivial. We presently examine each of the components in further detail.

Let us begin the analysis of the cardinality claim with an closer reading of Torrance (1986), where it is established that

the standard gamble measurement technique is valid by definition because it is based directly on the [vN-M] axioms, and the validity of the other techniques can be determined by comparison. (Torrance, 1986, p. 27)

Accordingly, the validity claim arises from the premise that vN-M utilities are themselves cardinal:

The standard gamble is the classical method of measuring cardinal preferences. It is based directly on the fundamental axioms of utility theory, first presented by von Neumann and Morgenstern. (Torrance, 1986, p. 20)

Astonishingly, the fact this premise is strictly incompatible with economic theory is entirely overlooked.

Since as early as the 1950's, economists have exhaustively demonstrated that the cardinality of the function $v(y_m)$ is strictly a mathematical property. Work by the likes of Ellsberg (1954) and Baumol (1958) were among the first to establish that this property does not bear and cannot be misconstrued as bearing any relation to the economic concept of cardinality in terms of measuring pleasure, appreciation, satisfaction, etc. Likewise, Luce and Raiffa (1957) formally outlined the fallacies of associating vN-M utilities with an assessment of the strength of an individual's preferences.

In fact, in their seminal work von Neumann and Morgenstern never sought such a conclusion. Their undertaking was motivated by a need to operationally simplify the analytical burden pertaining to game theory analysis. Indeed, their purpose was accomplished with irrefutable success; as Baumol (1958) explicitly demonstrates, maximizing vN-M utilities invariably leads to correct predictions of an individual's choice of lotteries. The direct implication of this, of course, is that behavior under uncertainty may be accurately predicted (to the extent that the vN-M axioms hold) by modeling the individual as maximizing expected utility. However, beyond facilitating prediction of individual behavior, there is no other explicit or implicit purpose envisioned by von Neumann and Morgenstern in developing their remarkable theory. Especially, the fact that in their own exposition (von Neumann and Morgenstern, 1944) they explicitly divorce their approach from any concept related to a cardinal measurement of preferences, is attested to by the thorough introspective of Fishburn (1989).

We dedicate the remainder of this section to illustrating the economics interpretation of vN-M utilities. Hence, begin by considering a standard textbook example of consumer behavior: exactly two goods are available for consumption, quantities of which (x_1, x_2) are optimally chosen by maximizing utility subject to a linear budget constraint. Assume for the simplicity of the example that utility is of the *Cobb Douglas* form and the budget constraint consists of income y and the price of good 1, denoted by p .³ By convention, good 2 is treated as the

³ Our main results, however, are readily extendible to the general utility function form $u(\cdot)$.

numeraire good with unitary price. Consequently, the mathematical formulation is typically expressed

$$\max_{x_1, x_2} u(x_1, x_2) \quad \text{s.t.} \quad x_2 \leq y - px_1 \quad (3)$$

Assuming the consumer is completely informed (e.g. all *exogenous* information is known with certainty), it is well known that setting either $u(x_1, x_2) = x_1^\alpha x_2^\beta$ or $u(x_1, x_2) = \alpha \ln x_1 + \beta \ln x_2$ leads to the same optimal choices

$$x_1^* = \frac{\alpha}{\alpha + \beta} (y/p) \quad (4)$$

$$x_2^* = \frac{\beta}{\alpha + \beta} y \quad (5)$$

In fact, the very same combination of good 1 and good 2 is chosen under *any* monotonic transformation of u . It is in this sense that the utility function $u(x_1, x_2)$ is regarded as ordinal.

Continuing with the example under certainty, substituting the optimal consumption values x_1^*, x_2^* into the utility function yields the *indirect* utility function

$$v(p, y) = \frac{\alpha^\alpha \beta^\beta}{(\alpha + \beta)^{\alpha + \beta}} \frac{y^{\alpha + \beta}}{p^\alpha} \quad (6)$$

Note that this expression involves only the exogenously determined price and income. Intuitively, it is referred to as indirect utility because the consumer does not derive pleasure or satisfaction directly from price and income. Rather these variables have a direct effect on an individual's choice of consumption bundle, which in turn, directly determines her utility.

The significance of the latter point is the following. If the price of good 1 decreases exogenously, it is typically regarded as having a positive effect on the individual's utility. However, this is not due to a direct relationship as the individual does not care about the decrease in price, *per se*. On the other hand, assuming that y remains unchanged, the lower price level effectively expands her budget constraint such as to allow a more favorable choice of x_1, x_2 . Of course, consuming a more preferred combination of the two goods indeed brings a higher degree of satisfaction to the consumer.

Furthermore, we may ask the question how much income would the individual be willing to give up in order to obtain the price decrease, i.e. to be just as well off with the price decrease (and lower income) as she was originally? Such a question leads us to consider the tradeoff between price and income at a constant

utility level. In other words, we utilize the *indifference curve* between price and income derived from the indirect utility function. If the price decrease under consideration is infinitesimal, then the answer is the marginal rate of substitution between price and income, times the price decrease (e.g. $dy = \text{MRS}_{p,y} dp$).⁴ Alternatively, if we examine a more substantial price decrease, then the necessary income reduction (Δy) is referred to as the *compensating variation* of the price decrease, and is computed from the indifference curve as $\Delta y/y = 1 - (1 - \Delta p/p)^{\frac{\alpha}{\alpha+\beta}}$. Neither dy nor Δy is affected by monotonic transformations of u .

It is also worthwhile to observe that if the original utility level is denoted as u and the utility achieved under the decreased price as u' , then Δy measures the *distance* between utility levels u and u' . Two comments regarding this observation are in order. First, the metric, in this case, is clearly specified – utility changes are being measured in *monetary* units. Second, while the income-based metric is obviously cardinal (it is defined up to a fixed origin and a scale in terms of the particular monetary unit, e.g. dollar, euro, etc.), the utilities whose distance is being evaluated are still ordinal. That is, the same numeric distance results regardless of the particular monotonic form ascribed to u and u' . As will be seen shortly, the latter bears a strong tie to the interpretation of the vN-M metric as a cardinal measure.

Expanding on our simple example, let us consider the individual's choice when the income level is no longer known with certainty, but rather the only information available is

$$y = \begin{cases} y_u & \text{w.p. } \pi \\ y_l & \text{w.p. } 1 - \pi \end{cases} \quad (7)$$

Thus, we wish to analyze the situation where a consumer must choose the optimal consumption bundle while facing a lottery as the source of her budget constraint, instead of a fixed income level. Since the budget constraint is binding, we may assume without loss of generality that the consumer will explicitly choose a specific consumption level of good 1, and let the quantity of good 2 be determined *ex post* by x_1 as well as the outcome of the income lottery.

Therefore, if the consumer's psychology is consistent with the vN-M axioms, then their expected utility theory tells that the consumer determines her optimal consumption bundle by maximizing expected utility as

$$x_1 = \max_{x_1} \{ \pi \tilde{u}(x_1, y_u - px_1) + (1 - \pi) \tilde{u}(x_1, y_l - px_1) \}$$

$$x_2 = y - px_1$$

⁴ By Roy's Identity, it is of course the Marshallian demand, times the price decrease.

The point of emphasis is that the solution to (8) *does* depend on the functional form of \tilde{u} . That is, $\tilde{u}(x_1, x_2) = x_1^\alpha x_2^\beta$ or $\tilde{u}(x_1, x_2) = \alpha \ln x_1 + \beta \ln x_2$ now lead to different solutions of optimal consumption levels x_1^*, x_2^* . It is tempting to conclude from this that under uncertainty, expected utility maximization does indeed induce cardinality in the utility index, i.e. under expected utility maximization the utility function conveys quantifiable information on the strength of preferences.

Such a conclusion, however, is largely misguided. The relevant question is whether observing choice under uncertainty would reveal more information about the consumer's preferences with respect to goods 1 and 2. The answer is no. Specifically, letting $\tilde{u}(x_1, x_2) = x_1^\alpha x_2^\beta$ it can be easily shown that solving (8) is equivalent to maximizing

$$\max_{x_1, x_2} u(x_1, x_2) \quad \text{s.t.} \quad x_2 \leq \left[\pi(y_u - px_1)^\beta + (1-\pi)(y_l - px_1)^{1-\beta} \right]^{\frac{1}{\beta}}$$

while if $\tilde{u}(x_1, x_2) = \alpha \ln x_1 + \beta \ln x_2$, then the corresponding maximization problem is formulated as

$$\max_{x_1, x_2} u(x_1, x_2) \quad \text{s.t.} \quad x_2 \leq (y_u - px_1)^\pi (y_l - px_1)^{1-\pi}$$

It can be shown that the above is extendable to any monotonic transformation of \tilde{u} : such transformations do not affect the underlying utility function $u(x_1, x_2)$ that captures the individual's attitude towards the consumption of the two goods. Instead, monotonic variations of \tilde{u} in expected utility maximization simply reflect differences in how the individual perceives her *budget constraint* under uncertainty.

The concept is depicted graphically in Figure 1. If either y_l or y_u is known to occur with certainty, then the budget constraint is linear (at the respective income level) and standard textbook analysis applies. However, when the income occurs due to chance, such that deterministic income in the budget constraint is replaced by the lottery $(\pi; y_l, y_u)$, then the *perceived stochastic budget constrained* (PSBC) takes on a curved shape between the two limiting budget constraints. The “perceived” element in the labeling reflects the fact that the particular shape of this budget constraint is subjective – it depends on the individual's attitude regarding risk. For example, risk neutrality in this case may be attributed to a linear PSBC. In general, the shape of the PSBC will be weakly concave, and therefore, interior solutions prevail under uncertainty.

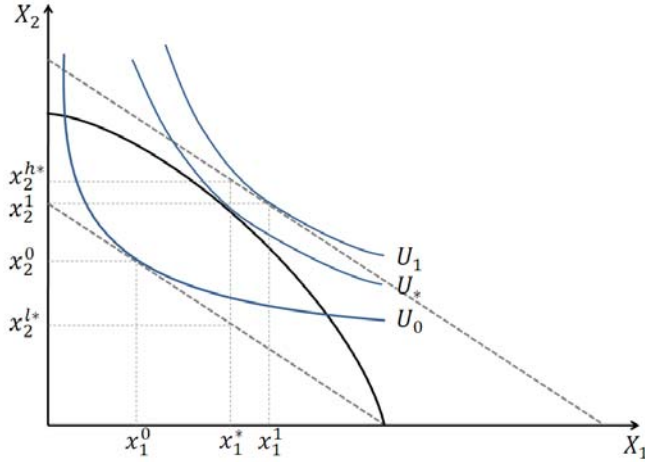


Fig. 1. *Perceived Stochastic Budget Constraint*

It is worthwhile to emphasize that the indifference map remains unchanged regardless of the individual's information about income or her risk attitude. Hence, there is no novelty being generated by uncertainty as to the strength of preferences between bundles of good 1 and good 2. On the other hand, the probability π on which the lottery $L \equiv (\pi; y_l, y_u)$ is founded, serves to shift the PSBC similar to the way in which the income level shifts an ordinary budget constraint in the full information case.

The analogy, therefore, is that under uncertainty we replace income y with the lottery L . Consequently, indifference curves based on indirect utility functions may be constructed between elements of L and other exogenous factors.⁵ If we assume that the support of the lottery (i.e. y_l, y_u) remains fixed, the latter amounts to posing exogenous factors against π . Accordingly, π may be used to measure a change in welfare induced by those alternative exogenous variables, and in consequence, π represents a metric by which utility distances may be measured, in the spirit of the income-based metric relevant under certainty. That is, instead of Δy we may consider differences in the lotteries, whereby denoting $L_0 \equiv (0; y_l, y_u)$ and $L_* \equiv (\pi_*; y_l, y_u)$, define the difference operator $\Delta_{0,*}$ on L as the difference between L_0 and L_* , respectively

$$\Delta_{0,*}L \equiv \pi_* \quad (11)$$

⁵ Smidts (1997) refers to vN-M utilities, in interpreting Fishburn (1989), as “probabilistic indifference curves measured by means of lotteries.”

This definition is operational to the extent that it is consistent with measuring welfare change between any utility levels represented by indifference curves passing through the area between the limiting budget constraints. For example, following Figure 1, $\Delta_{0,*}L$ (equivalently π_*) measures the distance from u_0 to u_* . Moreover, one can measure the distance from u_* to u_1 by computing

$$\Delta_{*,\dagger} = \Delta_{0,\dagger}L - \Delta_{0,*}L = \pi_{\dagger} - \pi_* \quad (12)$$

The important question then becomes what is the nature of such a metric? That is, if income quantifies differences in utilities on the money-metric scale, then what is the unit of measurement induced by probabilities? One possible interpretation is that π measures utility differences in *risk* units. Section 4 examines this idea further, in terms of health states. A topic worthy of a more profound analysis, of course, is whether this is reasonable measurement unit for health-care applications.

Expected Health vs. Risk Tradeoff

The exposition of the preceding section illustrated that in the standard economic perspective, vN-M utilities bear no connection to the concept of cardinal utility, in the sense of measuring strength of preferences. Instead, it was demonstrated that the numeric value assigned to such a utility by equating it to a pertinently elicited probability, is more appropriately interpreted as a change in welfare measure, in risk units. Observe that the analysis thus far has concentrated on income as outcomes relevant for the vN-M expected utility theory. Income, of course, plays a well defined role in economic analysis and is straightforwardly related to consumer choice. Accordingly, while our main interest is not measuring utility related to income, but rather that related to health states, this conventional framework is useful for at least two reasons: (i) it serves to clarify the theoretical basis for the SG method as applied in QOL assessment, and (ii) it offers guidance as to how health states may be incorporated into the corresponding theory as the relevant outcomes.

To expand on the latter, it is imperative that a distinct, conspicuous connection is established between health states and individual choice. Otherwise, valuing such health states is exclusively a psychology exercise, not an economic one, and involving the vN-M theory in this case is taking it entirely out of context. The manner in which health states may be related to choice deserves serious reflection. If a direct analogy is established between income and health states, then one must keep in mind that income is conventionally considered to affect utility only indirectly by influencing the optimal consumption of a bundle of goods. If, on the other hand, a certain health state is regarded as entering the utility function directly, one must take extra care in correctly interpreting a methodology that departs from the conventional framework.

One particular example of a model that relates health states to choice is that of Meltzer (1997), with extensions particular interesting in the context of the present discussion by Basu et al. (2005, 2009, 2010). In this model, an individual is

able to affect her health state at the expense of consumption by investing in health-care and reducing her disposable income:

$$\max_m u(h(m), c) \quad \text{s.t.} \quad c \leq y - m \quad (13)$$

Therefore, a health states embodies both endogenous (that part that can be affected investment level m) and exogenous components. Moreover, the model is easily extendible to choices arising outside of consumption. For example, one might easily replace income with time and consumption with leisure to obtain a tradeoff between health and leisure.⁶ In the latter case, an individual would be faced with the choice of how much of her leisure time to dedicate to improving her state of health (e.g. exercising, etc.), where once again she derives utility directly from both elements.

In application to the model in (13), and to a reasonable extent more genetically, the SG method may be related to expected utility theory as follows. When faced with a SG task, a participant in the study will choose the break-even probability π by considering the tradeoff between risk and expected health. Specifically, if she prefers more health and less risk, then an indifference map to reflect her decision may be constructed as depicted in Figure 2.

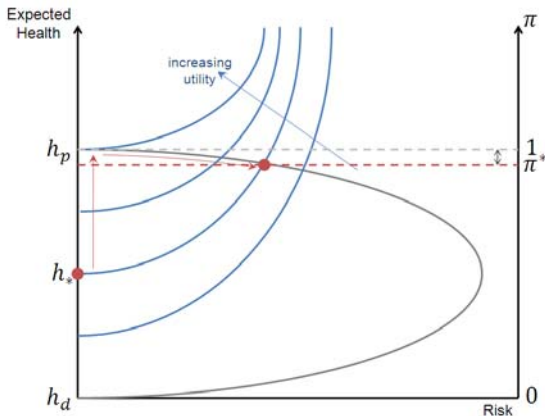


Fig. 2. Risk vs. Expected Health

Accordingly, the risk – expected health tradeoff is also directly embodied in the gamble itself, where all feasible combinations are designated by the rotated “U” curve in the plot.

⁶ We acknowledge that, as was pointed out by participants at the 2011 Symposium “Dreptul la bunăstare – viitorul economiei românești”, time and income are not generally interchangeable since income is feasibly infinite while time is necessarily finite. In some special cases, this certainly is an important consideration. Nevertheless, to the extent that in a significant portion of economic problems income is treated as a finite constraint on the individual's choice, the extension to time/leisure (and the like) seems reasonably appropriate.

Furthermore, the shape of the indifference curves, in this case, directly relates to the degree of *risk aversion* characterizing the participant in the SG task. Specifically, more risk averse participants are represented by more convex, steeper sloping indifference curves (accordingly, flat indifference curves imply risk neutrality). Moreover, each indifference curve relates a certainty equivalent health state (e.g. with zero risk) to a lottery with a higher expected health and greater risk. The fact that the two lie on the same indifference curve, obviously indicates that the participant is indifferent between the two options. Therefore, we may envision measuring the distance between the utility of some health state h_* and that of perfect health h_p , by moving away from the riskless point h_p along the inverted “U” curve, until the indifference curve capturing h_* is intersected. At this intersection, lies the lottery defined by π_* , which provides the same amount of utility to the participant as the riskless health state h_* . Consequently, the distance between utilities derived from h_* and h_p is quantified as $1 - \pi_*$.

Hence, this is another way to illustrate the fact that the probabilities elicited by the SG method, in fact, measure distances between utilities (or changes in welfare) rather than any cardinal utility values. More importantly, by considering the measurement procedure in this light, we explicitly account for the crucial element driving the resulting valuation – the participant’s risk aversion with respect to the SG task. An important consequence of this is that it offers one potential explanation of the invariance often found in SG-based quality of life measures: a higher degree of risk aversion and hence steeper indifference curves, lead to a greater proportion of health states to be associated with lotteries concentrated at similar probability values (close to 1), where distinctions are more difficult for participants to identify. Therefore, risk aversion may be one simple reason for the encountered invariance in practice.

Conclusions

On theoretical grounds, the probabilities elicited by the SG method cannot be justified as measuring a cardinal utility index that quantifies the individual’s strength of preferences; ascribing such an interpretation of cardinality to vN-M utilities is at odds with conventional economic theory. On the other hand, because vN-M utilities may be appropriately viewed as measuring welfare change or utility differences, as discussed in section 3, the QOL measure generated by the SG method may be interpreted from this perspective as well. The latter is, of course, predicated on successfully relating health states to an individual’s choice, such as to make economic decision theory applicable.

In this respect, economic theory suggests that SG-elicited probabilities may be regarded as capturing utility differences quantified by probabilistic risk units. This interpretation aligns SG with the closely related utility elicitation methods TTO and WTP as measures of welfare change. However, while the QOL index

generated by TTO is readily interpretable as *quality adjusted life years* (QALYs) (Torrance et al., 1989), and likewise for the WTP method as *quality adjusted wealth* (QAW), the corresponding QOL index derived from the SG method does not convey a similarly obvious, natural interpretation.

The most concrete characterization of SG is that it reflects the individual's attitude towards risk. The question, however, is whether this is an acceptable property of a QOL index? According to Lenert and Kaplan (2000), it is in fact desirable. Yet, they offer little explanation as to why this should be so, which leaves a number of important gaps in the analysis. The fundamental problem is relating risk attitude to an individual's valuation of health states. Why should a particular health state's effect on an individual's well-being be driven by her attitude towards risk? Lenert and Kaplan (2000) make reference in this regard to a potential decisions one might face when presented with a risky surgery (as a treatment option, say, for a serious illness).

Care must be taken, however, in assimilating the risk attitude exhibited by an individual in completing the SG task to the risk attitude present in deciding upon risk treatments – risk attitudes are likely to take on dramatically different forms across various contexts. In addition, serious illness accompanied by risky treatment options characterizes only a small fraction of situation in which a subjective valuation of health state is typically sought. In general, there is no obvious place for uncertainty in an individual's decisions related to health, and therefore, no clear connection between how risk attitude inherent to the SG task reflects such decisions and the utility derived from them.

To expand on the latter perspective, one might generally inquire whether the risk attitude captured by the SG-elicited probability truly reflects a risk preference of the *individual* or just that of the *participant*. In other words, does a participant's risk attitude, which influences her decisions in completing the SG task, extend beyond the experimental setting? The decision theory literature that Lenert and Kaplan (2000) cite in supporting the desirable risk preference property of the SG method takes into serious consideration the concept of *intrinsic risk attitude* (Bell and Raiffa, 1982; Dyer and Sarin, 1982; Smidts, 1997). In this view, an individual facing a choice under uncertainty is induced with a certain risk preference specific to the situation and not related to any underlying preferences or valuation of resulting outcomes. Consequently, if intrinsic risk attitude is applicable to a particular SG experiment, then the captured risk preference is simply an artifact of the methodology.⁷

To what extent the above considerations are significant when applying the SG method depends on the specific case at hand. The point of emphasis is that by better understanding the theoretical framework in which SG-elicited measurements arise, we can better interpret the results obtained according the context within

⁷ This is inline with the findings of Hellinger (1989) that in health-related decisions under uncertainty, “risk attitudes are not absolute but are functions of the parameters in the gamble”.

which we operate. To that end, the usefulness of the SG method relative to its utility elicitation counterparts (TTO and WTP), as well as other non-utility based measures, is a practical matter. Regardless of which theory we base the derivation of the method on, as long as its results can be properly interpreted and deemed useful as such, the methodology is likewise useful. The common theme of this article is that the latter is generally context-dependent.

Nevertheless, there *is* a property of the SG method with respect to risk that is generalizable across contexts. As is immediately evident from Figure 2 (and may be verified formally without excessive analytic complexity), the SG-based QOL measures invariably reward risk aversion. Specifically, an individual with a higher degree of risk aversion will always yield a higher elicited π , and thus, will *necessarily* be assigned a higher QOL value for the same health state as an individual with less risk aversion. In our view, this is a somewhat confounding property of HRQoL assessment, especially in application to cost effectiveness analysis. Besides generating considerable difficulties of aggregating such measures across individuals with varying degrees of risk aversion, the ensuing CEA based on such a measure will yield a more favorable assessment to a certain health-care initiative among groups of individuals with more risk aversion, even if differences in health-care improvements across the groups are negligible.

On the other hand, the interpretation suggests that the SG methodology may be well suited in evaluating subjective well-being in situations inherently characterized by risky choices. One might imagine the potential for such situations as arising, for example, in connection with living environments. In particular, this may be an interesting application in conflict regions where “gambles” involving possible improvements in livelihood at the risk of death are often encountered. Risk aversion, in this case, may indeed be correlated with perceived well-being. More specific to Romania, a potentially suitable application may present itself in terms of evaluating subjective well-being of individuals involved in certain hazardous occupations, a topic that, to the best of our knowledge, has yet to be approached from *any* methodological perspective.

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YOUTH EMPLOYMENT ON THE ROMANIAN LABOUR MARKET IN THE CONTEXT OF THE CURRENT ECONOMIC AND FINANCIAL CRISIS

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Abstract

The paper intends to analyze the main labour market characteristics and factors for Romanian youth in the current market position. The analysis and forecast of the educational process and of graduates' employment according to their differing educational levels on the Romanian labour market is realised based on Markovian techniques. By making use of the developed scenarios, the crisis effects can be quantified with respect to economic growth, labour market perspectives, as well as the employability and mobility of young labour force participants in the various economic sectors.

Key-words: *crisis, unemployment, labour market, young, impact modelling*

JEL Classification: I₂₁, J₆₂, J₆₅, J₈₂

Introduction

The world economy is deeply affected by the ongoing global economic and financial crisis. If initially the effects of the global crisis on the Romanian economy were small, later on, the national economy has been hit due to the dependency on the evolution of developed countries.

The economic activity was regressing, a fact also reflected on the labour market, as the crisis manifested in the strong growth of the number of unemployed and of the unemployment rate. The number of unemployed has increased during 2009 by 75.8%, from 403,441 persons in December 2008 to 709,383 persons, recorded in the NEA in December 2009. The unemployment rate, which in December 2008 was 4.4%, increased to 7.8% in December 2009.

Even as of 2007, boosting employment of graduates took on new valences (targeting both segments of the labour market: employers and graduate), nevertheless the number of registered unemployed aged up to 29 was 24.2% of the total number of unemployed in 2009.

The 10,662 graduates employed in 2009 are merely 15.51% of the total number of graduates registered in the records of the National Agency for Employment.

Former financial crises have shown that a labour market upturn takes place in an interval of four to five years after the economy's recovery. The difficulties in

diminishing the growth trend of long-term unemployment and spread-out “informality” of the Romanian labour market are enhanced by significant migration flows from urban to rural areas and the return of foreign workers. All these negative factors trigger a long-term crisis with considerable social difficulties.

The paper intends to analyze the main characteristics and factors on the labour market for Romanian young people in the current market in order to identify some possible ways to increase youth employability in the short-, medium-, and long-term. For this purpose, also some economic and mathematical instruments are used. The analysis and forecast of education and employment of graduates of different educational levels on the Romanian labour market are made based on the principal components method and Markovian techniques. By making use of the developed scenarios, the crisis effects can be quantified with respect to economic growth, labour market perspectives, as well as the employability and mobility of young labour force participants in the various economic sectors.

General characteristics of young people’s access on the labour market at European Union level

At the European Union level, the economic-financial crisis wiped out years of economic and social progress, while highlighting the structural weaknesses of the European economy.

In this context, the “Europe 2020” Strategy proposes three priorities which are mutually reinforcing:

- i) smart growth by developing an economy based on knowledge and innovation;
- ii) sustainable growth by promoting a more efficient economy in terms of resource use;
- iii) promoting inclusion enhancing economic growth by promoting an economy with a high rate of employment, ensuring social and territorial cohesion.

One of the most important initiatives of the strategy for economic growth “Europe 2020”, aimed at fighting unemployment among young people across the continent, is “Youth in Motion”, which seeks to prevent rising unemployment among youth, while providing also some practical tools.

The “Youth in Motion” initiative suggests 28 key-actions designed to link education and vocational training to the labour market and to encourage young people to take advantage of scholarships offered by the EU, or of the internship opportunities in another country.

The “Youth in Motion” actions will help Member States to achieve the main objective of the EU, that is an employment rate of 75% over the next 10 years, ensuring that young people have the necessary skills for tomorrow's jobs.

At European Union level it is estimated that future jobs will require more competencies and that 35% of them will require higher education, and 50% medium level studies. In this context, early school leaving is a serious problem in reaching the objectives of Agenda 2020.

By “Youth in Motion”, the EU aims to reduce the early school leaving rate from 15% to 10% and increase the number of young people with university degree or equivalent from 31% to at least 40% by 2020.

Also, “Youth in Motion” will encourage higher education institutions to improve quality through greater openness/transparency and cooperation with their partners in other parts of the world. The action will provide for more transparent information about the performance of each institution based on a new international multi-dimensional system of classifying universities. The New Agenda for modernizing higher education, which is part of “Youth in Motion” and will be presented by the Commission in 2011, will underpin comprehensive actions to cover all these concerns.

The measures proposed by the European Commission within the “Youth in Motion” action focus on three areas:

i) modernizing education and vocational training so that they become more relevant to the needs of youth and employers. The actions will be directed toward schools, apprentices and to a better recognition of skills acquired outside formal education. They also aim to increase the attractiveness of higher education so as to increase the share of young people with high level qualifications

ii) supporting mobility in education and jobs. The measures include new sources of information at EU level, a new generation of EU financing programmes for education and vocational training and an improved jobs portal (EURES).

iii) providing a new EU framework for youth employment, including recommendations to Member States on labour market reform and more aid to public employment services for improving support for young people.

The most affected states by the economic-financial crisis are Spain with 37.8% youth unemployment and Latvia with 33.6%. Only Germany, Austria, Denmark and Norway have young unemployment rates with values about 10%, while the Dutch youth unemployment rate is only 7.7%.

Romania took place 14 in the top of young unemployed in the EU countries, in accordance with Eurostat data, with an unemployment rate among young people aged 16 to 24 years of 20.8%, as this was the first year in which the international crisis hit Romania.

In 2010, about five million Europeans under 25 years of age were unable to find a job, which represents an increase by one million people worldwide against 2008, that is in the year of the economic and financial crisis outbreak.

If one of the main objectives of the future “EU 2020” Strategy will be to promote the development of a society and an economy heavily oriented towards knowledge, UK education and training from the perspective of lifelong learning will have to take the core position within this strategy.

In addition to their intrinsic value for each person, education and vocational training are essential for both economic and social progress. Therefore, Europe needs high-quality education and vocational training systems that are open and flexible, combining efficiency and equity. These systems could allow all individuals to achieve their full potential and would prepare them for the labour market, while promoting the social inclusion and nurturing civic responsibility at

the same time. These are systems that aim to develop and improve skills, promote mobility and encourage entrepreneurship, creativity and innovation.

At the European level, cooperation in the field of education and vocational training has recorded considerable progress for the last decade in identifying and addressing common challenges and in developing the experience exchange and best practices.

The school helps young people acquire basic skills for life and skills necessary for personal development. The quality of a student's school experience affects not only personal development, but also his position in society, his/her education and employment opportunities.

Demographic trends of the past three decades reflect the declining birth rates, which led to the aging of the population of EU countries and the diminished shares of individuals under 30 years of age in most Member States. These changes might significantly impact human and material resources required for the proper functioning of educational systems.

Increasing international competitiveness implies high professional skills combined with the ability to create, to innovate and to work in multicultural and multilingual environments. Together with demographic pressure, this makes it even more important for education and vocational training systems to increase overall levels of education, while providing the opportunity for all persons, young and adult – regardless of their socio-economic or personal circumstances –, to develop their full potential through lifelong learning.

Regarding higher education, at the EU-27 level were registered, in 2007, approximately 18 million students and about 1.3 million people with higher education.

Special emphasis is placed today on the linkages between universities and enterprises. Thus, in 2009, the European Commission presented a communication entitled “A new partnership for the modernization of universities: EU Forum for University-Enterprise”(<http://ec.europa.eu/education/higher-education>). Its purpose was to establish a university-business forum as a European platform for dialogue to enable and stimulate the exchange of best practices, debate common problems and identify joint solutions.

Mobility of students and teachers are regarded as important tools for enhancing innovation, productivity and competitiveness of the field.

General characteristics of young people’s access to the Romanian labour market

For Romania, the economic and financial crisis manifested at the world level strongly influenced the labour market until 2009, when a sudden growth in the unemployment rate was recorded. Registered unemployment underwent an upwards trend in 2009, as this was the one year (save for 1999) in which the unemployment rate increased on a monthly basis. If in January 2009 the unemployment rate increased to 4.9% (against 4.4% in December 2008), in December 2009 this rate increased to 7.8%.

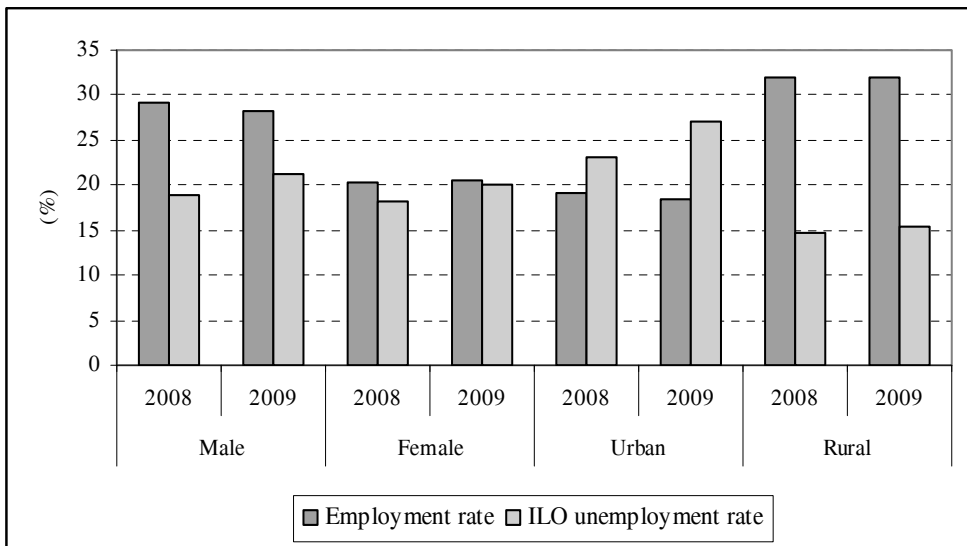
At the level of the year 2009, out of a total population of 21,498.6 thousand persons, the civil active population represented 9,150.4 thousand persons and the civil employed population was of 8747.0 thousand.

Statement of vacancies reported by employers in 2009 shows a drastic reduction in their bid compared to previous year.

In the year 2009, the records of the National Employment Agency registered 1,140,052 people looking for a job. Out of these, 50.46% were from urban areas and 49.54% from the rural areas. In terms of age, 19.17% were people aged under 25, 23.56% persons aged 25-35, 27.04% persons aged 35 and 45, and another 30.21% people over 45 years of age.

The data supplied by the *Statistical Yearbook of Romania – 2009* indicates that employed population for the age group 15-24 years represented in 2008. 8.3% of total employed across the country, and for the 25-34 years age group only 26.8%. The highest share of employed population for this age group was held by those with middle-level education both for urban and rural areas.

The year 2009 characterized the segment of the population aged 15-24 years with a slightly lower employment rate than in 2008 and an increased ILO unemployment rate (Figure 1).



Source: Activity Report for the Year 2008-2009, NEA

Fig. 1. Evolution of employment rate and ILO unemployment rate among young people

For young people, aged between 15-24 years, long-term unemployment rate decreased to 10.3% in 2009 (as compared to 10.5% in 2008) and the incidence of long-term unemployment among young people to 49.5% from 56.3% in 2008.

In the period 2008-2009, 5,669 individuals benefited by non-taxable employment bonuses granted from unemployment insurance fund, respectively 2,989 graduates employed for a period longer than 12 months.

The current stage of Romanian education is defined by an important number of bottle-necks and crises that need to be solved.

The radical improvement of the educational offer of the whole education and vocational training system in Romania is recognized as an important strategic priority for youth employment on labour market for the medium- and long terms. It also takes into account the fact that system reforms as well as effort and resources investments in the field, have a high degree of inertia, the absorption capacity being a determinant factor, and the return rate lower on short-term, tangible results becoming noticeable only after a given number of years.

In the Romanian society there is widespread recognition of the fact that education is a strategic factor for the future development of the country through its essential contribution to the multidimensional and predictive modelling of human capital. Education is perceived as a path to sustainable development which, in fact, is a social learning process in search of innovative solutions.

If with respect to the level of education for young people, Romania is very close to the EU-27 average, in terms of school abandonment rate, for 2008, Romania continues to be placed on position 6 as compared with other European countries in this respect.

As of 2007, encouraging the employment of graduates undertook new valences, targeting both segments of the labour market: employers and graduates. Hence, the subsidies to employers for hiring graduates differentiated by level of completed education had as effect an increase of the number of young people employed on the labour market and who are registered with the records of the National Agency for Employment.

In 2009, by subsidizing employment, 3,605 graduates (33.81%) were employed with individual labour contracts for undetermined period. Out of these, 6.8% were graduates of secondary schools of arts and crafts, about 39% were graduates of upper secondary or post secondary education, and 54.2% were graduates.

Also, in 2009, 7,057 graduates (66.19%) were employed by individual labour contracts, but without subsidized workplaces.

The 10,662 school graduates employed represent 15.51% of total graduates registered in the records of the National Agency for Employment.

At the county level, the highest number of graduates employed was in Bucharest (437), Iasi (426), Cluj (332), Mures (308), Timiș (260), and Harghita (217). In counties such as Argeș, Bacău, Bihor, Bistrița Năsăud, Botoșani, Covasna, Dâmbovița, Galați, Neamț, Tulcea and Vaslui no graduate was employed.

An important contribution to employment of graduates has been organizing at national level the Job Market for graduates, in September 2008 and 2009. Thus, of the total of 30,843 (in 2008) and 35,189 (in 2009) participants, 13,506, respectively 27,252 were graduates. If in 2008, 3,662 graduates were employed, in 2009 their number was reduced to 2,603 individuals.

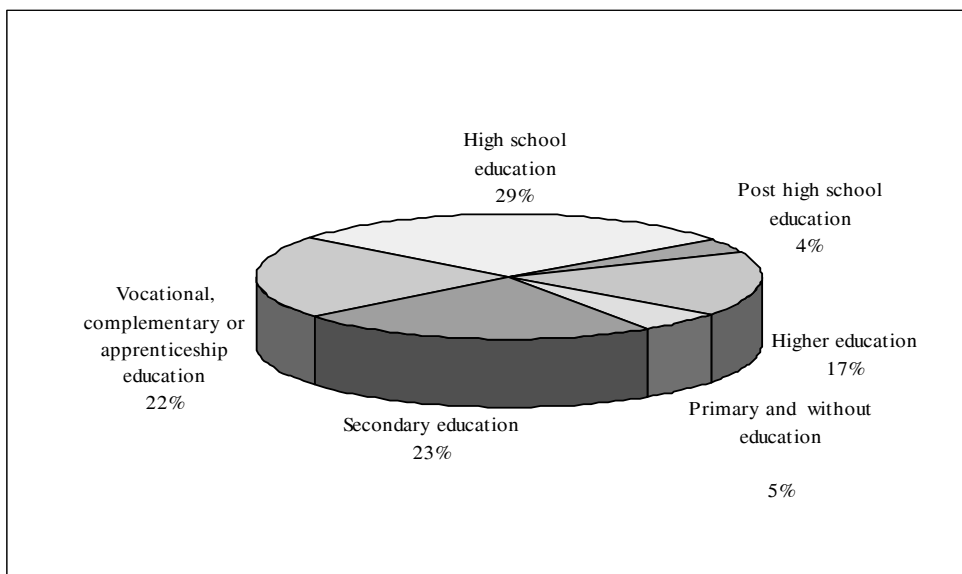
A solution to meet labour shortages in certain areas, regions and activity sectors, is geographical mobility, by which employment or relocation bonuses are granted. However, stimulating geographical mobility from the perspective of

employment and job identification has not produced any spectacular effects in the period 2008-2009 either for young people, as just 556 people were aged under 25 years of for people aged between 25 and 35 years as only and 693 benefited from this measure. Lower wages, issues concerning the possibility of obtaining housing for self and family and sometimes rooting mentality in the place of birth, are some of the reasons for which this measure is less effective.

Within the ad-hoc module realised by the National Institute of Statistics in the second quarter 2009 for analyzing the access of youth to the labour market, 5,923 thousand young people aged 15-34 years made the subject of the study from which 58.8% came from the urban area and 50.2% were women. The main objective of the ad-hoc module was to provide information on the transition of young people aged 15-34 years from education to working life.

Out of the 5,923 thousand persons considered, 5,849 thousands have taken some form of training in the national education system, and 74 thousands have never followed a form of training in the same system. If 33.3% of those who underwent training in the national education system continue to undergo a certain form of training, the rest have left the education system.

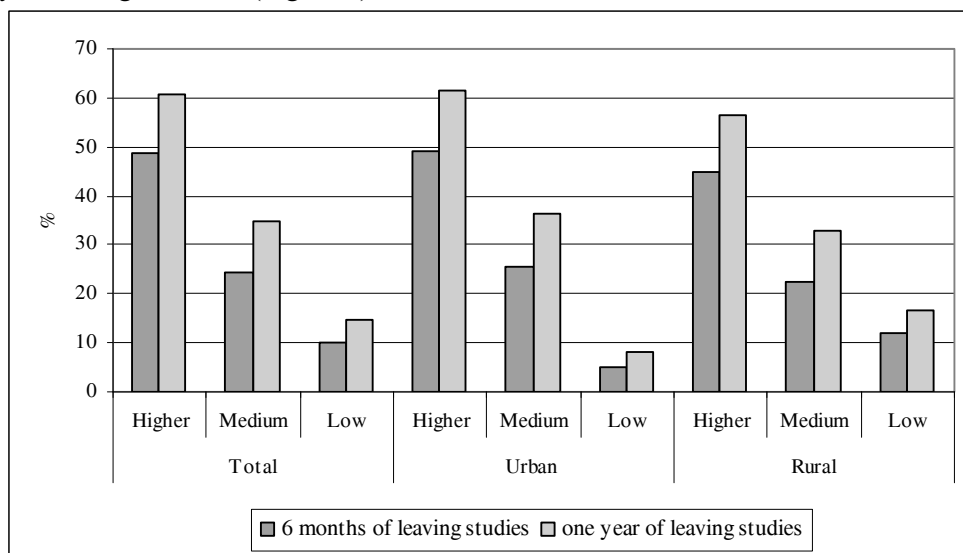
As individuals advance in age, participation in economic activity is intensified with the simultaneous decrease of the participation rate in education. People within the upper age interval of the analyzed segment of the population (30-34 years) had a share of 87.7% of the active labour market and their rate of participation in education was only 2.1% (Figure 2).



Source: Activity Report for 2008-2009, NEA
Fig. 2. Participation to economic activity by level of training

Of total young enrolled in education, 82.0% had at least one significant job after leaving the national education system, of whom 56.85% were in urban areas. Most (75.6%) entered the labour market as employees, and the largest part of them (92.1%) worked full-time.

The insertion rate was 24.4% at 6 months after leaving education for persons aged 15-34 years irrespective of the time at which they left education for the period prior to the completion of the complementary survey, and 33.6% at one year after graduation (Figure 3).



Source: Activity Report for 2008-2009, NEA

Fig. 3. Rates of labour market insertion for persons aged 15-34 years who have left education

Estimates regarding the impact of the economic and financial crisis on the process of schooling and education in Romania

The market position of socio-economic and political changes occurring in Europe and, implicitly, in Romania allowed for important steps in substantiating a new concept with respect to policies dedicated to youth.

One of the issues facing young people in attempting to enter the labour market is the fact that many of them, after graduation do not have a qualification, or if they have one, then it is no longer demanded on the labour market, or they lack sufficient experience for exercising the respective job/trade.

The study of the evolution of the schooling process by Markov-type models is useful for the analysis of employment and labour mobility in various sectors of the economy.

For the proposed analysis we used data on population comprised in the six levels of study of the Romanian education system and a series of assumptions were made, namely:

– it is assumed that a process of education consists of six stages, each having a certain length of time depending on the type of corresponding education form: four years for primary and secondary education, 2 years for post-secondary and an additional 3-4 years for higher education;

– at the end of each stage, graduation to next stage (or termination of schooling?) is decided by examination;

– it is recognized that a student may withdraw from courses at any time, but once withdrawn he/she never returns again. Hence, the situation of a student after a period of study can be described by one of the following alternatives:

- 1) the student passes the exam and will attend the next stage;
- 2) the student does not pass the exam;
- 3) the student withdraws before this exam.

– it is assumed that the graduation probabilities to a superior stage, of repeating the concluded study or of withdrawal do not depend on the outcomes obtained by the student in the previous years. Under these conditions, the process of undergoing the successive stages by the students which might be concluded either by successful graduation of schooling or by termination, may be described by a Markov chain with stages 0, 1, ...6. The 0 stage characterises a student in the first schooling stage, stage 6 a student who concluded schooling successfully, stage 7 a student who abandoned, and an intermediary stage i , $1 \leq i < 6$ characterises a student who did not promote the first i stages of schooling. Stages 6 and 7 are under these circumstances absorption stages.

Based on these assumptions, the performed computations led to obtaining the transition matrix (Iosifescu M., 1977, schooling Markov model), respectively:

$$\begin{pmatrix} 0,921 & 0,054 & 0 & 0 & 0 & 0 & 0 & 0,0089 \\ 0 & 0,867 & 0,0952 & 0 & 0 & 0 & 0 & 0,01451 \\ 0 & 0 & 0,841 & 0,118 & 0 & 0 & 0 & 0,0209 \\ 0 & 0 & 0 & 0,839 & 0,151 & 0 & 0 & 0,0192 \\ 0 & 0 & 0 & 0 & 0,971 & 0,042 & 0 & 0,00506 \\ 0 & 0 & 0 & 0 & 0 & 0,932 & 0,049 & 0,0051 \\ 0 & 0 & 0 & 0 & 0 & 0 & 1 & 0 \\ 0 & 0 & 0 & 0 & 0 & 0 & 0 & 1 \end{pmatrix}$$

Because the solving of any problems regarding the motion of an absorbing chain on its non-recurrent states do not lose anything of generality (if assuming that all its states are absorbent), will be considered that in such matters the transition matrix has the canonical form::

$$\mathbf{P} = \begin{pmatrix} \mathbf{I} & \mathbf{O} \\ \mathbf{R} & \mathbf{T} \end{pmatrix}$$

where \mathbf{I} is the unit matrix and the matrix \mathbf{T} has following components:

$$\mathbf{T} = \begin{pmatrix} 0,921 & 0,054 & 0 & 0 & 0 & 0 \\ 0 & 0,867 & 0,0952 & 0 & 0 & 0 \\ 0 & 0 & 0,841 & 0,118 & 0 & 0 \\ 0 & 0 & 0 & 0,839 & 0,151 & 0 \\ 0 & 0 & 0 & 0 & 0,971 & 0,042 \\ 0 & 0 & 0 & 0 & 0 & 0,932 \end{pmatrix}$$

with the \mathbf{T} matrix components and using:

$$\begin{cases} n(i, i) = \frac{1}{1 - r_{i+1}} & 0 \leq i \leq 6 \\ n(i, j) = p_{i+1} \dots p_j \frac{1}{1 - r_{i+1}} \dots \frac{1}{1 - r_{j+1}} & i \leq j \\ n(i, j) = 0 & i > j \end{cases} \quad (1)$$

the probabilities of absorption may be computed:

$$\begin{cases} a(i, d) = \sum_{j=0}^{d-1} n(i, j) p(i, j) = p_{i+1} \dots p_d \frac{1}{1 - r_{i+1}} \dots \frac{1}{1 - r_d} \\ a(i, d+1) = 1 - a(i, d) & 0 \leq i \leq d-1 \end{cases} \quad (2)$$

It is noticed that the probabilities of absorption $a(0, d)$ and $a(0, d+1)$ represent the probabilities that a beginner student successfully completes education, respectively withdraws.

Based on the data used, values of the absorption probabilities were obtained, as shown in Table 1.

Table 1

Probability values of absorption for the study of the evolution of a student during schooling

$a(1,6)$	0,544		$a(1,7)$	0,446
$a(2,6)$	0,634		$a(2,7)$	0,367
$a(3,6)$	0,719		$a(3,7)$	0,279
$a(4,6)$	0,818		$a(4,7)$	0,128
$a(5,6)$	0,9175		$a(5,7)$	0,079

The average length of schooling for a student, which is concluded either by graduation or withdrawal, was determined based on the relations:

$$E_i(v) = \sum_{j=0}^{d-1} n(i, j) = \begin{cases} \frac{1}{1-r_{i+1}} \left[1 + \sum p_{i+1} \dots p_j \frac{1}{1-r_{i+2}} \dots \frac{1}{1-r_{j+1}} \right] & 0 \leq i \leq d-1 \\ \frac{1}{1-r_d} & i = d-1 \end{cases} \quad (3)$$

The analysis of obtained results allows for determining the average value of the schooling period for a junior student (schooling concluded either by graduation or by withdrawal) for each educational level. Hence, for the considered case these values are presented in Table 2.

Table 2

Educational level	Duration of schooling (years)
Primary	3,87
Secondary	7,58
Complementary	10,56
Upper- Secondary	11,55
Post-secondary	14,81
Higher education	16,3

This information together with similar analyses on other groups of indicators can be very useful in adopting some measures for adjusting educational supply to future requirements imposed by the labour market, as indicated by inquiries conducted by employment agencies and other bodies.

Increasing the relevance of education and initial vocational training for the labour market needs is a major goal pursued by drawing up educational policies and the activities developed by education/training providers. The youth unemployment rate poses the question of education's relevance for the labour market. In this context, a series of measures have to be adopted which aim at adjusting educational and initial vocational training supply to the requirements of the labour market, at improving strategic planning and professional and technical training, at supplying professional guidance services and key-competences by means of a series of projects which are in the implementation, contracting or evaluation stage.

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ROMANIA'S TRENDS IN LOHN SYSTEM EVOLUTION

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Abstract

In the current economic conditions of the financial crisis, companies must identify and use all the opportunities that the market offers for reducing the financial flows influence on the performance of their current activities. One of these possibilities is lohn operation, which combines the import of raw materials and the export of finished products and manpower, ensuring the use of production capacities and the increase of labor employment.

The paper addresses both theoretical aspects as well practical ones, analyzing the evolution and lohn's impact on the Romanian market.

Key-words: *lohn, instructing, executing, active lohn, passive lohn*

JEL Classification: O₁, O₁₀

Introduction

In contemporary international trade, combined economic activities have witnessed a significant extension: the re-export process, switch operations, swaps operations, etc., which justifies their incorporation in foreign trade techniques.

There are numerous causes for these businesses' international economic expansion:

- in some cases, it has to do with the production capacity capitalization for some partners, while in others it is brand-related;
- gaps between different countries in terms of quality of the commercial and marketing techniques and mechanisms, which bring significant benefits to firms in countries where they figure as big trading powers (lohn);
- obtaining an important commercial profit and increasing foreign currency reserve;
- surpassing discriminatory trade barriers, achieving flexibility in the more rigid business techniques, such as counterparting, re-export, etc.;
- in other cases, the main reason lies in the requirement to mitigate the rigid nature of the clearing agreements and other bilateral arrangements (switch).

Due to the fact that usually these businesses do not engage commercial material substance, but generally, production investments in some partner countries, they contribute heavily to the prosperity of participating nations and companies.

Lohn term evolution

Although statistics are incomplete in this area (as a consequence of the confidential nature of certain businesses that work under the lohn system), companies from countries like Belgium, Netherlands, Austria, France, Germany, England and others have achieved large profits from such combined commercial operations, in the last three or four decades.

In Romania, the lohn technique can be traced back in the '70s, at the handcraft cooperatives where it was used in order to absorb the labour force available in this sector (especially in textiles). The clothing products are among the items that are manufactured on a large scale in Romania, under the lohn system.

The term "lohn system", is derived from the German word "lohn", which means "salary". In the European Union, lohn system is known as the "outward processing data – OPT" (i.e. passive processing operations), while in the US, as production subcontracting (i.e. "shared production") that refers more or less to the same system.

According to the Legal Dictionary, lohn implies a contract whereby a manufacturer (performer) is obliged to execute an order product for the costumer (contractor), in exchange for some remuneration and some technical documentation provided by the contractor.

The operation of pre-processing in lohn, also called "order production", has developed especially for West-East and North-South relationships through relocation by western companies of the intensive industrial labour production to countries in Central and Eastern Europe, or to developing regions.

Lohn – sale of labour or re-export, pre-processing – consists of the processing of raw materials, intermediate goods or finished products, belonging to one party (the importer) by the other party (the exporter). Contractors working under lohn are companies that provide inputs, buildings, machinery, utilities and labor, but no brand products; they have weaknesses in management and marketing activities, especially in international affairs.

Lohn processing operations employ relationships and collaboration in production and techniques development, so they can be considered as international economic cooperation actions, especially in the formula known as "on-demand production", as well as "trade monopoly" or "export of manpower".

To some extent, lohn is a source of promoting re-exports because the importer usually sells the respective products primarily on foreign markets. Contractors under lohn own prestigious brands, well-placed in the world market, which tend to expand their businesses by fully exploiting the advantages arising from the strong position they have in this market.

Depending on the purpose of the transaction (export or import) Lohn is either active (labour export) or passive (labour import). Active Lohn requires the importer of finished products to provide the necessary raw materials and other supplies for the exporter and after that, the finished products are manufactured and re-exported to the importer. In passive Lohn, the importer of finished products exports raw materials and other supplies to the exporter who processes them into finished products, after which the importer re-imports them. Lohn payment is generally determined by a compensatory amount in currency. In most countries, raw materials, spare parts and accessories enjoy preferential customs treatment if they are under a Lohn contract. Economic affairs through Lohn contracting may be determined by different reasons, which generally represent advantages for the business partners.

In terms of contractor (exporter) benefits, we mention:

- the performer uses the surplus production capacity on account of external market conditions specific to this operation – exporting labour, utilities, and to an extent, depreciation of machinery, buildings, etc.;
- maintain production at an acceptable level or even at a higher level, even without the necessary raw materials and supplies needed to meet the quality of current market requirements and by acquiring them from the contractor;
- has the opportunity to modernize a number of activities in the field of product design and manufacturing technology, receiving along with the contractor's order a series of models, designs, and often technical assistance – i.e. real manufacturing “know how”;
- maintaining a relatively high degree of labour employment while the impact of knowledge acquired from external partners reflects favourably on its quality;
- execution of products under Lohn contract is a testament to the competitiveness of the enterprise in terms of production, which for skilled managers may be a prerequisite for transitioning to production of own brand products (underproduction, coproduction).

From the contractor's viewpoint, Lohn also offers a number of advantages:

- increases the economic activities volume (revenue, profits), without investing in production capacities, since they use the production capacities of the partner
- may achieve a high rate of profits due to various regional differences, such as wage discrepancies, as well as the fact that they are able to exploit the advantages of marketing under their own brands;
- consolidates its market position there by developing and maintaining a high rate of sales on the market, representing lasting positive effects in the competitive struggle.

Limits and risks for the lohn performers

Lohn is a system of on-demand production, export of manpower and manufacturing production facilities, which as has been shown, gives the performer small financial benefits and a modest financial profit rate, with the “dollar portion” returning to the contractor.

The risk that the contractor will close a lohn contract, in case of adverse conditions that may occur under respective products market, may produce catastrophic consequences for the performer, who has trained the workforce and prepared the entire manufacturing operation for the production of the ordered products.

Production under a lohn contract, while under a foreign brand, postpones the promotion and marketing activities for prolonged periods of time. In fact, it keeps the performer anonymous, with adverse consequences on his company’s prestige on the international market. Extension for a very long period of lohn execution condemns the performer enterprise to commercial stagnation; also, being to a certain extent at the discretion of other firms, performer companies could end up in bankruptcy.

Other risks are related to the delays that may occur in the transportation and supply of raw materials, which may adversely affect the production continuity and regularity, with numerous negative consequences arising from this situation.

The price risk, which can affect the exporter, may be present in the sense that the price of the finished product may become insufficient to cover the input factor costs associated with its production; after signing the contract, the cost factor may increase significantly (labour, energy, water, etc.). Lohn assures to the exporter a lower income in foreign currency, compared to the situation in which he would export finished goods from own production, under own brand and obviously having an adequate management.

Limits and risks for the lohn contractors

There are cases when the performer of the products under lohn contract doesn’t meet the product quality requirements and even registers a high percentage of rejects. Obviously, the officer shall ensure the contract for these situations, but the issue becomes tricky when they waste raw materials and valuable semi-manufactured.

As a result of any breach of quality requirements and delivery terms, the officer risks losing some favourable conjunctural moments or even businesses already contracted.

Officers indirectly “take” some risks, arising at the performer, sometimes due to a reduced quality management, some other times, as a result of some social and political disturbances, natural disasters, etc.

Analyzing objectively the comparative advantages of the two parties, we have to mention that processing operations under lohn contract resolve or reconcile the discrepancies which occur in terms of quality and assortment between the

possibilities of executing the company's internal product and external market requirements, fostering a spirit of cooperation between business partners.

In order to stick to the plain truth, we must emphasize that the officer's benefits are much higher than the performer's, both in the short term and especially in the long term. In fact, analyzing the economic effects, it results that the officer obtains a profit rate ten times higher than the performer, consolidates his global market position, prospers, while the executor of the products under Lohn contracts just survives.

Looking back some years ago, according to a study conducted by an American company, Romania was the largest supplier of garments to the European Union, ahead of Poland. Romania's exports of footwear and clothing owned 35% of the total. Products made in Lohn exports represented 90% of light industry, from those exports, one third were directed to Italy.

Many years Lohn meant for textile factories in Romania a great business opportunity. They didn't have to bother with any problems concerning the design or invention of a strong brand and the sale of any products. Everything came from abroad! They just had to have equipment and manpower as well as to meet the deadlines and quality standards imposed by the large firms from abroad. At present, almost the entire Romanian textile industry is supported by Lohn system orders and in case the Lohn system ever withdrew from our factories, our textile industry situation would be seriously affected. Some of the major international firms which produced in Romania's Lohn system, have already gone to the East, attracted by a labour force cheaper than in our country.

One of the biggest clothing manufacturers in Lohn system which used to produce over 20 million products annually in the factories of our country is the Swedish brand H&M. They "packed their things and left" our factories at mid-2010. The situation is slightly ironic since H&M officials have announced that early next year they are going to enter in mall stores across our country. Still, this time, we will not find on their labels inscribed "Made in Romania". The Romanian fashion designer Romanita Iovan's textile factory also used to work for H&M and it produced brands like: "Romanita", from Caracal. Her factory also used to produce for another prestigious brand named Next. They also left the Romanian market last year. Along with them, Marks&Spencer, C&A, Kiabi, Lindex and the Italian shoes maker Geox, left one by one our country.

Returning to Romania of 2010, things are different, rules have changed the game and here we are without the important customers we used to have once, since they were not willing to pay increased salaries to Romanian workers, which is why they moved elsewhere. The crisis has increased considerably the Romanians' "chances" of going bankrupt, which makes our employers seek for new financing or surviving solutions. Even if the Lohn system doesn't bring a fabulous income, it assures production and keeps people in factories, fact that in Romania of 2010 is considered to be a great success.

For some time now local manufacturers of clothing and footwear have decided to try their luck on the Romanian market with their own brands. However,

only few of them reach the public eye. Some of the most well-known examples of local brands are: Tina R, Musette, Braiconf or Jolidon.

Secuiana, one of the leading textile manufacturers in the local market, have momentarily frozen their expansion plan in Ukraine and Moldova, and they have also limited to open only two stores Adam's, instead of eight planned for this year, according to Laszlo Dobra, the company's manager, in an interview with Wall Street Journal. The present economic climate has reduced the lohn pieces production to 60%, now representing only 25% of Secuiana's turnover, says Laszlo Dobra. Thus, the share of turnover resulted from *Adam's* brand marketing has annually increased, reaching 75% in 2009. At the same time, businesses displayed after the first six month of 2010 reported a decline of 30%, as an effect of the financial crisis as well as of the lost of important lohn costumers due to high price tallies. In 2010, Secuiana will be able to live on thanks to the production under lohn contract for the few foreign partners who haven't left as well as to the domestic sales of Adam's products range.

The idea of those investing in their own brands is to try to capture the middle-income customers, that is, those who are not satisfied with cheap products, but do not earn enough to invest in expensive foreign brands. "The emergence and consolidation of Romanian brands that offer competitive products more expensive than the current "Chinese" ones, still cheaper than the foreign brands, will gradually guide consumers to quality products", says Maria Grapini. But first, buyers should get used to local brands. This is becoming more and more difficult given the fact that the Romanian market is becoming more attractive to the Western producers.

If we take a look at statistics, a few years ago 700.000 employees worked in the textile sector, while at the end of 2009 their number was roughly 350.000. Compared to the corresponding period of the previous year, imports of textiles had the biggest drop, from 1.5 billion euro. In the last three years, there is a steady decline in textile exports. Statistics show that domestic industry employers do not consume more than 15% of annual production, whereas China, Turkey, India, Bangladesh and Tunisia are the main clothing suppliers for the local market.

If the famous clothing brands have left our factories, Romanians still have a few aces up in their sleeves in the footwear industry. Famous international brands such as Louis Vuitton, Gucci, Prada, D&G, Miss Sixty, Furla, Max Mara, Tosca Blu still produce their shoes and bags in our factories. The nice part is that some of them have outlets, that is, small stores where they sell their products at "producer" prices which are much lower than those in mall stores. However, the contracts with major fashion houses don't allow all factories to benefit from these shops. Foreign orders for shoes registered the smallest decrease over the first eight months of 2009, that is, four percent, according to FEPAIUS data (Light Industry Employer's Federation), indicating exports of 637 million euro.

Let's start with the luxury: Louis Vuitton has two factories in Sibiu, one in Cisnadia and another one in Avrig. They produce their shoes and bags. These

factories belong to the fashion houses. In Sibiu we also find Prada. Here they produce the Italian brand leather line, namely, handbags and belts.

As regards the shoes collections, they are produced in the very capital of our country, or, better said in a factory located on the outskirts of the city. Moreover, Prada shoes are also produced in Craiova and Brasov.

In fact, there is a long list of famous brand shoes that are present in Bucharest's production units: from Prada and Dolce&Gabbana to Tod's, Max Mara and even Rossignol. The luxury brand Dolce&Gabbana is also produced in Arad, whereas Max Mara has a shoes production line in Sibiu.

Not less important when it comes to fashion is Cluj, a city where they produce the brand Gucci along with Miss Sixty and Fornarina. In Jimbolia, a locality from Timis region, they produce Otter's collection and in Beius, from Bihor region, they manufacture the products of Veronella house.

Some of these factories own outlets and sell a part of what they produce for export, while others don't. It all depends on the contract with the international brand. "Only certain factories sell a part of the shoes they produce and have specially equipped outlets in the proximity of their factories. Prices vary from manufacturer to manufacturer, but obviously they are much cheaper than those from ordinary shops. However, there are factories that can't sell anything since the customer doesn't allow them", explained for incont.ro Cornelia Oarga, Footwear Manufacturers Association representative Safra Factor.

Conclusions

Once the largest producer in lohn system in Europe, in today's Romania there remained only a part of the clothing brands that flooded our market in the 80's and 90's. Why did they go? Some have found cheaper labor force in countries such as Bangladesh, Pakistan, China or Vietnam, others were not satisfied with the technology level used by the Romanian tailors to produce their clothes, while the rest of them were defeated by crisis. Contrary to all predictions, the lohn system doesn't die, but it turns into something else: the biggest clothing producers sublet orders to the small ones. However, lohn is not a long-term solution; the real winners are those able to invest in their own brands.

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TESTING COMPONENTS OF ROTHBARD'S THEORY WITH THE CURRENT INFORMATION SYSTEM

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Abstract

The concept of aggression against property rights of individuals generates a series of developments that allow solutions and options to problems and dilemmas of today's economy: the dynamics of the tax system, focusing attention on shaping the budget with macro-economic calculations, the protection of competition, and customs policy in the modern era.

The confidence in theory in general, especially in economic theory, is based on the logical and methodological validation of scientific reasoning and moral aspects. Transforming the theory into a means of changing the society can only be made when a theory is experimentally validated. The economic theory needs confirmation from specialized disciplines such as statistics and accounting. It is possible and necessary for the advantages of radical liberal thinking to be reflected in every company's bookkeeping and in public statistics. As an example, the paper presents the way some components of Rothbard's theory are reflect in the accounting and statistics information system.

Key-words: *aggression, liberalism, accounting, statistics, taxes*

JEL Classification: M₄

Introduction

Debates on various doctrines usually remain in the area of economic methodology or epistemology. Macroeconomic data is outlined if arguments that must be validated by numbers are needed.

In this paper I support the radical liberalism doctrine with arguments from the accounting and statistical information systems, both using data at firm level. As far as statistics and accounting are able to interfere in economic doctrine debates, they take a big step forward in defining and improving the scientific instruments.

The “non-aggression” axiom and its contemporary validation

According to Rothbard, the liberal doctrine is based on a central axiom: that no person or group of persons cannot aggress against another person or its belongings. This can be called the “non-aggression axiom”. The word “aggression” is defined as the initiation of the use or threat of physical violence against a person or a property of any person. Although it is a concept with a high level of generality, the non-aggression axiom components have been validated over time as operational in macro and in microeconomics. A stream of thought was formed on this basis that allowed the rapid progress of nations or organizations. The accounting and statistical information systems have the largest share of operational data collection at both macroeconomic and microeconomic levels.

Table 1 shows up-to-date validation of components of the non-aggression axiom based on the conclusions of information systems.

Table 1

Up-to-date validation of components of the non-aggression axiom

No.	Component of the non-aggression axiom	Contemporary validation mode
0	1	2
1.	Aggression is synonymous with invasion	Military campaigns, armament race, external dangers, the occupation of foreign territories as defining parameters of the military invasion impose new taxes to taxpayers; economic history has proved that wars were often a pretext for offensives against the property rights of the majority; modern times brought as a new element forms of expropriation not only for real-estate property, but also for the labour outcome of poor classes; causes of problems in the pension system include the financial mechanisms of state aggression against the interests of the majority of citizens;
2.	Forms of government intervention on property rights or on free market economy can be represented by controls, regulations, subventions or interdictions	The control mechanism cannot be the same for all operations of the same type; Differences of handling in controls are forms of market positioning rearrangement on independent of competitiveness; The regulations are based on a well-defined benefit system;
3.	– conclusions from the accounting and the statistic informational system concerning the nature of the controls	– control authorities reach a small number (which is a very small percentage) of those who should be checked; – the vast majority for whom regulation can be applied are not actually subjected to controls; – controls are becoming more and more an instrument of pressure, redistribution, forced change of positions on the market;
4.	– conclusions from the social, accounting informational and statistic information system concerning the nature of regulations	– regulations avoid essential aspects of development; – regulations are not followed by those with power or those with lobby at state institutions, giving them illegitimate advantages in relation to the vast majority of citizens;

	<p>– conclusions from the accounting informational system and the statistic system concerning the nature of subventions</p>	<p>– subventions are in most cases a waste of resources to support certain companies or activities with no future; – subventions are instruments of redistribution of resources collected by the budget in favour of those who lobby state institutions; – the criteria for allocating subventions are often far from the criteria for accessing private funding;</p>
5.	<p>– conclusions from the statistic informational system and accounting system concerning the nature of interdictions</p>	<p>– those who manage to evade the interdictions make an exaggerated profit compared to the vast majority;</p>
6.	<p>Recruitment is slavery on a massive scale</p>	<p>The actual use of social time at various moments of those recruited by the state was a source of waste; In the activities of those recruited, the will and interests of the majority were rarely taken into consideration</p>
7.	<p>Modern warfare involves a totally unfair mass killing of civilians</p>	<p>Many wars have proven totally useless in terms of objectives; Modern wars do not solve problems anymore, but create new ones affecting the standard of living of those in whose name it is fought; the calculations made on the war in Iraq are an eloquent proof; Wars have resulted in a permanent thinking based on the waste of resources through excessive arming;</p>
8.	<p>Each individual has the right to own a property without having to suffer its aggressive devastation</p>	<p>Every time the stimulant of personal property disappeared, the incentive to work, to invest and the rigor towards effectiveness decreased; according to statistics the unrestricted right of private property and free trade represents the basis of progress, even for countries with poor natural resources;</p>
	<p>Each individual has the right to pass on his property (inheritance) or to exchange it with the property of others;</p>	<p>The right of inheritance has been developed under the pressure of liberal thinking; because of its natural aspect it was less affected even in collectivist systems; The right to exchange property was severely affected by the tacit acceptance of the fraudulent practices of major financial institutions; rules of caution in accounting, mandatory for ordinary companies, have been seriously violated in the case of strong financial institutions, although the degree of certainty of transactions should have been higher;</p>

9.	How can a free market be favoured in parallel with vast subventions, distortions, and unproductive inefficiencies involved in military-industrial complex?	A free market in the interest of the majority cannot be developed in parallel with vast subventions, distortions, and unproductive inefficiencies involved in a military-industrial complex. Published statistics have proven this point;
10.	Prohibit practices that do not represent an aggression against the right of property of others (non-invasive)	Every time the practices that do not represent an aggression against the right of property of others (non-invasive) have been restricted, the evolution towards progress has been affected; The vast majority of the population did not take account such restrictions, a parallel market being developed;

HIGH TAXES AND THE FISCAL URBAN CRISIS – MAJOR PROBLEMS OF PROGRESS IN ROTHBARD’S THEORY

A current and extremely pressing topic in Rothbard’s theory is the excessive level of taxes. Aside from the point of view of the immoral doctrine of radical liberalism, these unreasonable taxes create obstacles in the way of progress. In Romania, besides the fiscal pressure exerted by taxes, their permanent alteration is also acting, which supplements the problems of organizations that could generate development. Cataloguing frequent changes in legislation in this field as “tax miners” (Băluță, 2002) is not excessive. In the recent literature it is often said that the ink hasn’t even dried properly after drafting a rule that another comes to change it or “take its place” (Popescu, 2010). Moreover, the tax system of many countries increases the rigidity of the market and of the costs without justification by using the global and progressive enforcement mechanism (Băluță, 2008). These findings are based on data collected by the current information systems, primarily the accounting and statistics ones. Centralization of data from firms’ financial statements, selective surveys of the investment behaviour of firms in different situations based on representative samples, and analysis of the correlations between macro-economic parameters are some of the methods used by a majority of economic analysts that reached similar conclusions to those made by Rothbard on the problems of excessive taxes. Table 2 presents the validation of the information system of Rothbard’s conclusions concerning the major problems generated from excessive taxes.

Information system validation of Rothbard's conclusions on major problems generated by excessive taxes

Nr. crt.	Conclusions of the doctrine promoted by Rothbard on the problems caused by excessive taxes	Validation by the present informational system
1	The high and growing taxes have paralyzed almost everyone and prevent productivity, stimulation and economy, as well as the free movement of peoples' energy;	The higher the taxes the lower the investments, the higher the unemployment and public debt, and the greater the need for new taxes. A vicious circle of economic stagnation appears. The economic recovery solution proven statistically and in terms of accounting is tax reduction.
2	At the federal level, there is a growing rebellion against the burden of taxes on income, and a tax rebel movement is thriving, with its own organizations and journals, that refuse to pay a tax which they see as monopolizing and non-constitutional	The lack of fiscal control makes more and more firms think that tax debt is a source of financing without guarantees;
3	Locally and at a state level there is a growing wave of sentiment against the oppressive property taxes	The problem of taxes appears in every issue of all economic publications, it is perceived by the public as essential, and all tests and simulations of future developments revolve around the tax variables
4	Initiatives on fiscal strike	In the U.S. in the autumn of 1977, tens of thousands of owners in Cook County Illinois, were engaged in a fiscal strike against the tax on property, which has increased dramatically because of higher assessments; In Romania, in early 2009, a a fiscal strike call has been answered by leading publications in terms of circulation
5	Across the nation, states and localities have difficulties in paying interest also because of excessive public debt	High taxes have resulted in stagnation and public debt, and the debt due to increasing financial costs generates a new and larger deficit
6	The urban fiscal crisis is only a matter of excessive government spending, higher even than the high taxes taken from us. Again, how much city and state governments spend is up to them; once more the government is to blame.	Although the taxes collected are growing, like any other public authority, the City Hall and Government increase the spending in an even greater rate, which determines the appearance and increase of public debt

CONCLUSIONS

Up-to-date validation of the elements of the non-aggression axiom is primarily possible through the statistical and accounting information systems. Aside from the point of view of the immoral doctrine of radical liberalism, excessive taxes generate obstacles to progress, as evidenced by the accounting and statistical information systems.

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PERVASIVE BUSINESS INTELLIGENCE SOLUTIONS

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Abstract

The utility of BI solutions is accepted all over the world in the modern organizations. However, the BI solutions do not offer a constant feedback in line with the organizational activities. In this context, there have been developed pervasive BI solutions which are present at different levels of the organization, so that employees can observe only what is most relevant to their day-to-day tasks. They are organized in vertical silos, with clearly identified performance and expectations. The paper emphasizes the role of pervasive BI solutions in reaching the key performance indicators of the modern organizations, more important in the context of crisis.

Key-words: *pervasive business intelligence, dashboard, metrics, KPI*

JEL Classification: L₈₆

Introduction

The present has familiarized us with the technology that facilitates the accomplishment of daily repetitive activities of a company, such as:

- ✓ constant awareness of their stocks and balancing the company stocks by sending requests to suppliers, if the systems are programmed to do that;
- ✓ profiling the typical consumer, knowing their preferences and needs and continuous adaptation to their requirements;
- ✓ product and activities knowledge of competitive companies and suggesting possible ways of action, etc.

All these are routine activities that can be performed successfully by robots built on the principles of artificial intelligence. These facilities are provided by ubiquitous and context-sensitive systems. In these systems, robots learn by continuously assimilating certain contexts. At first, they consult the owner in making decisions, but when they find themselves in a similar situation they act on the learned behaviour.

Literature Review

A system able to adapt to the context is called a *context-aware system*, a term introduced by B. Schilit, N. Adams, and R. Want (1994). A context-aware application has the ability to adapt to the position, the people and objects nearby, as well as movements of these objects and persons. Pervasive and context-aware systems have been developed by different communities of specialists, although based on the same technology and having the same goal. They only differ because the first ones are focused on continuous presence in the daily activities, while the others rather emphasize the adaptation to contextual situations.

Traditional BI solutions evolves towards pervasive BI (PBI – Pervasive Business Intelligence), which allow to all the organization's employees at all levels the access to statistics, alerts and feedback mechanisms. It's a new paradigm, with enormous potential benefits and major cultural implications.

Dave Mittereder (Mittereder, 2005) states PBI benefits as follows:

- ✓ provides a more efficient way to influence the strengths of the organization as a whole, because every employee has the opportunity to improve key performance indicators (KPI), established by management;
- ✓ provides a sustainable competitive advantage, facilitating seamless integration of each employee as the organization itself would have been able to make the right decisions at the right time, in line with corporate goals and objectives of the client;
- ✓ improving operational efficiency by discovering new and best management practices to those practices from the bottom up and top down.

Theoretical Background

The BI term refers to technologies, applications and practices for the collection, integration, analysis and presentation of information used in business, in order to facilitate the decision-making process. BI provides the “X-rays of the operational business process” of the present, historical or projected, using data stored in data warehouses and/or databases. BI software contains elements which assist the extraction, analysis and reporting of information. BI solutions are designed in modules that respond to business sales, manufacturing, financial, human resources, accounting, etc.

BI technologies use intensive statistical and mathematical algorithms, linear, exponential, logarithmic, multivariate regression models, time series with or without trend, the correlation coefficient, Fisher test, Durbin-Watson test, Jarque-Bera indicator (skewness, kurtosis), clusters, etc. To achieve in depth statistical analysis and forecasts on economic developments in environmental characteristics outside/inside the company, the indicators characterizing the market research on the characteristics of market segments, the final consumer behaviour changes. The BI solution can provide conclusive information on the flow of logistics activities, to maximize profit by choosing the best solutions to transport problems, or by choosing the critical path to obtaining relevant and timely knowledge to enhance competitive advantage.

Pervasive BI is a powerful tool for measuring progress against strategic corporate objectives and key performance indicators (KPIs) that were determined by management and communicated throughout the organization. Individual employees may have a greater impact on organizational goals because when they may work with PBI in real time, they are able to take their own initiative. The employees have greater freedom to express their entrepreneurial skills in supporting the organization.

In Business Intelligence circles, “Pervasive BI” has gotten a lot of airplay lately. The image of everyone in an organization embracing the new analytic tools is quite appealing to C-level managers, and vendors froth at the mouth when they think of line-level employees logging into their portal every morning to look at the most recent production reports and analytics. (Larson, 2008)

This model involves cultural challenges. For example, in establishing and communicating the strategy of the organization, managers may need to anticipate and address problems such as a reluctance due to fear of loss of control and uncertainty about how to use the information to which the access of those who are not accustomed to act on its own initiative has increased.

Another cultural impact is that pervasive BI can create new levers for change. If management creates a clear strategy, defines it, implements a pervasive BI solution to monitor progress and employees whom it is addressed a specific task, such activities will have corporate and bottom-up structural impact. Instead of being frustrated by the inability of the organization to send the day-to-day executive initiatives, they can be implemented in measurable workflows and placed directly at work at every level. This approach also assumes that executive managers to employ an action, rather than to send vague “management messages” that few people can translate into everyday work. With pervasive BI solutions the company’s executive management team can help employees at all levels understand exactly the degree to which these expectations are met.

So it is a good solution for organizations to incorporate these BI’s in their business processes. This requires assistance from top to bottom for any pervasive BI solution, which is a major change program. Overcoming cultural resistance to pervasive BI, especially among first-line managers, will require a new vision for business and executive directors able to cope with the process. It also needs a specialist for pervasive BI solution that can understand the business organization to tailor the solution to respond in particular the deficiencies and weaknesses of the organization, and to continuously improve it.

Dashboard interface

Bringing all the information on the dashboard, on the same page, depends on how pervasive BI solution is used to measure results in line with targets for business activities, strategies and key performance indicators (KPI). Thus, every employee has an overview of the business and may discuss this issue, although he is only specialized on a specific type of activity.

Through dashboard interfaces with specific colour codes, employees can access their KPIs for specific tasks. For example, every employee in the department of logistics can have access to company stock, he will know which are the products, quantities and suppliers from which his colleagues have made the order, which are the products (with quantity, discounts, etc.) ordered by customers and the date the products to be delivered, which are delays in delivery, etc. This system, also, allows to measure employees performance against the objectives of their department and company goals. All this has led to many conversations employee-employee and employee-manager, conversations about sharing best practices and sharing workload to meet customer service level agreements.

At the next level, department managers can track the relative performance of individuals in the work of the basic daily and ability to react quickly to any changes, positive or negative. Pervasive BI solution also enables them to track trends in other branches, subsidiaries around the world, understand different situations and explore how different workflows can be extended successfully within their departments.

At the level of management can be seen the individual and departmental performance skills, where is added the ability to drill down, depending on requirements and the elements that contribute to achieving business goals. Since the data are collected and analyzed in real time to the lowest level of the organization, managers have the unprecedented ability to change faster propagation of an effect on the whole enterprise. Instead of implementing a policy and pending the submission and feedback, coordinated across the organization, managers can monitor the immediate effects of a decision and make changes proactively.

Each employee has access to many of the managers and executives' facilities, except that they are limited by their job responsibilities. Like managers, they can track the immediate effects of their decisions and make changes proactively. Like mid-level managers, they may see changes to their performance and can decide on how to improve them, without waiting for guidance from a higher level.

In a workflow context, pervasive BI solution measures the time for certain activities and send warning messages to employees, managers in accordance with business rules. Colours indicate the status of work, to provide 'at a glance' information about the prioritization of efforts. Employees should not be expected to communicate a task, being well known red flag, indicating that the activity needs immediate attention.

However, pervasive BI solutions must reflect what a particular business is, in real time. In fact, it's more about the "right time" than "in real time". Timing can vary from one business to another, from milliseconds to minutes, hours, days, etc.

In general, the faster pervasive BI becomes more operational, the need of timely information updates based on business requirements increase. It appears the requirement to update the information from several sources at the same pace, same time. Clearly, not all data are equal. In these cases one can choose the rotation upgrade, but would cause a latency of data that can lead to incorrect and undocumented decisions. In developing a pervasive BI, therefore, is critical to

properly define the ‘timing/calendar’ to ensure that key performance indicators for specific business activities are updated accordingly.

Over time it has been observed that one cannot manage what he cannot measure. Starting from this point of view the pervasive BI solution is based on continuous evaluation metrics, and where previous measurements are considered inadequate, new ones take their place. Initially, the company will define what metrics will be used for performance. An example is measuring the time required for an employee to do a task. This measurement is not relevant if the context is not taken into account. If an employee has to do one task at a time and other employee has to do several tasks in addition to that mentioned in the same period, the second employee might seem uncompetitive, because he needs more time. In this case the system can weigh the time required for performing the task, to take into account the complexity of jobs. This period may, also, vary from one department to another or from one geographical region to another, depending on the context. We draw the conclusion that these metrics are not perfect, but it must exist.

Pervasive BI solution enables companies to conduct thorough investigations down to very low levels in order to design metrics, refine systems and change business processes. What happens when someone focuses on information that has never been available – or not paid attention in the past – can be very interesting.

Trends in developing BI solutions

With pervasive BI, measurements with high accuracy lead to a correct behaviour and behavioural change in the benefit of the company.

The major factors that influence businesses are:

- *globalization* – market change continues;
- *virtualization* – source code sharing, collaboration between companies;
- *transparency* – it attaches great importance to the client and to the collaboration between employees;
- *technological changes* – which have the effect of customization for applications and adaptation of the web process for the client;
- *re-engineering of the management processes* – movement from operational excellence in personalized management.

The analysis of Figure 1, adapted from IDC (market research company) the software market tendency respond to two goals: more data, more users. Also it can be noted the openness to information technology manifested by an increase in the number of developers within company and the use of technologies that allow the applications customization (Semantic Web, service oriented, ubiquitous systems, etc.).

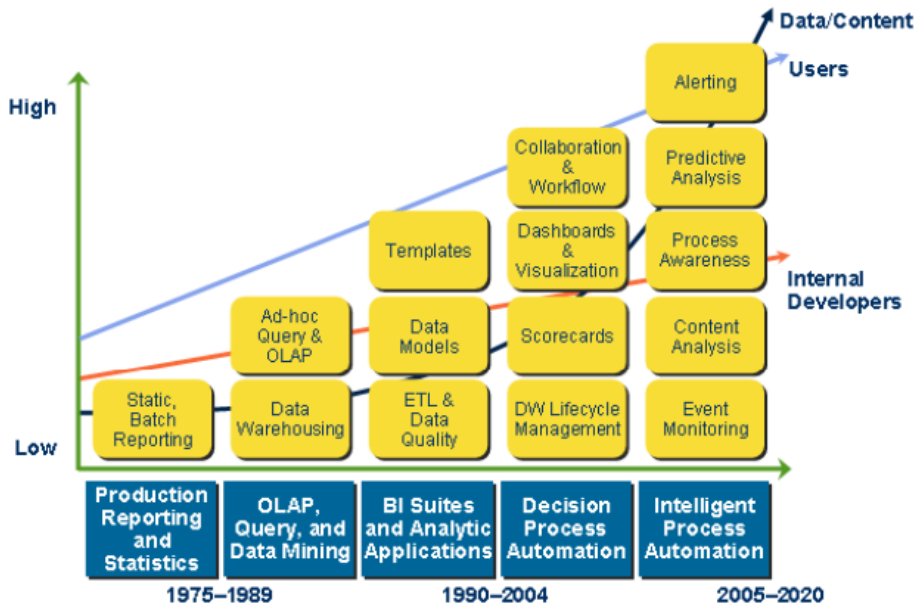


Fig. 1. Trends in developing BI solutions (adapted from IDC)

The market software for business analysis developed from processing, reporting to OLAP data-mining in the 90s, from applications based on ETL processes, on models, on templates to automate decision process in the 2000s, through dashboards, group decision support systems, for online collaboration, GDSS.

Modern BI solutions are turning to automation of the intelligent processes, monitoring events (pervasive and context-sensitive BI), content analysis, process monitoring, predictive analysis and alerting users regarding the occurrence of certain events.

Looking ahead, 2011 is likely to be a critical year regarding the easiness in use, the analysis complexity, the performance and total cost will continue to dominate the BI market, while the ability to create links between departmental marts and enterprise deployments will be a challenge for providers of IT and BI.

In 2011 the market is starting to be dominated by *cloud computing solutions*, reducing costs, whereas the applications, technologies and data are available on a virtual server, and customers pay only for what they consume. This diverts a lot of money out of Romania at Amazon (AWS, Amazon Web Services), Google Apps, Microsoft Azure. Revenues from cloud computing services were estimated in 2010 at 68,300,000,000 dollars globally, and in 2014 will reach about 148.8 billion dollars, according to a study presented in June 2010 by the research firm Gartner.

Conclusions

Pervasive BI solution has the ability to retrieve relevant information that is usually reported to management, and to pass it down to users. Culturally, the pervasive BI success depends on the belief that the ability of employees to achieve set targets and KPI management is favourable for the entire enterprise, and that individuals may contribute more than they do today, with access to management control. Pervasive BI solution makes use of the fact that the employees know their jobs better and depending on the circumstances, they themselves can interfere with their improvements. Another critical success factor is the 'right time' for the data in the pervasive BI so as to be synchronized with business processes. People will not pay attention to details that seem out of synchronization with what they are trying to do. As in traditional BI, also in pervasive BI it is important to develop appropriate metrics related to business processes. Also, pervasive BI is becoming increasingly accurate and powerful as the metrics evolve. However, individuals should consider metrics to discover their shortcomings and improve them accordingly. Moreover, pervasive BI solution provides an unprecedented mechanism for changing the existing organization. By embedding metrics for behaviour during the organization's work processes and people are rewarded for correct behaviour and leadership team will provide a powerful tool for change. Instead of controlling only the steering wheel, they can control the engine for the entire shift. From managers to new employees, everyone can work smarter when business information is pervasive.

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**IV. SOCIAL, POLITICAL
AND ENVIRONMENTAL FACTORS
IN THE PROCESS
OF DEVELOPMENT**

POVERTY – FATALITY OR CIRCUMSTANCE? THE PRINCIPLE OF “TAKE-OFF” FROM POVERTY

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Abstract

Poverty is one of the most challenging issues to be addressed by contemporary society. Although it could be considered as a legacy of previous era and it was addressed by a wide range of experts, a meaningful solution is still to come. The paper looks to the content of the poverty concept, reviews the causes of it and how it is approached by various ideologies and formulates a principle – “take-off” – that could serve as guidance for reducing or removing it. This principle refers to perspective, motivation that transforms perspective into a tangible goal, and external support that could be engaged directly through investments, jobs or indirectly through education, health assistance, and social work.

Key-words: *poverty, “take-off” principle, survival, perspective, motivation, support*

JEL Classification: I₃₂, I₃₈, I₃₉

Introduction

The Millennium Development Goals (MDG) program of the United Nations (UN) covers a wide range of changes, but its core is made up by a strong commitment in fighting against poverty. Thus, the list of goals are headed by “end up poverty and hunger” having as targets “halve, between 1990 and 2015, the proportion of people whose income is less than \$1 a day” and “achieve full and productive employment and decent work for all, including women and young people”. Facts on progress (box no.1) are not supportive for an optimistic perspective.

Box nr. 1 Quick facts about eradicating extreme poverty and hunger

The number of people living under the international poverty line of \$1.25 a day declined from 1.8 billion to 1.4 billion between 1990 and 2005.

The proportion of people living in extreme poverty in developing regions dropped from 46 per cent to 27 per cent – on track to meet the target globally.

The economic crisis is expected to push an estimated 64 million more people into extreme poverty in 2010.

About one in four children under the age of five is underweight in the developing world, down from almost one in three in 1990.

Source: UNITED NATIONS SUMMIT, 20-22 September 2010, New York, High-level Plenary Meeting of the General Assembly,

http://www.un.org/millenniumgoals/pdf/MDG_FS_1_EN.pdf, accessed on 04.01.2010.

Since poverty is an important concern for several decades that affect a large number of inhabitants and that is featured with a high persistence in both developed and developing nations we engaged in an in depth analysis, which aims to reveal the main causes, the perspective on poverty developed by various ideologies aiming to formulate a supporting principle that could serve as guidance for poverty reduction or even removal. Thus, the first part of the paper will look to some definitions and prominent opinions. Further, we present a range of causes for poverty considering different perspectives and give detail on the “take-off” principle by referring to perspective development, motivation building, direct and indirect support.

Poverty – definitions and views

The World Health Organization defines poverty as a “life lacking the chances of living at a certain minimum standard level”. The World Bank calculates the poverty threshold considering calorie consumption: “poverty is the minimum level of incomes at which consumption expenses allow the satisfaction of nutritional needs and provide acceptable calorie consumption.”

Robert McNamara, the former president of the World Bank, considers that in absolute poverty, humans, by fighting for survival are exposed to risks and humiliations that exceed the fantasy of the privileged world. He considers that this could be considered the threshold of survival.

Spiker et al. (1999) and Zamfir et al. (2009) consider that poverty is the product of a power structure that exists in the society and of the ways how certain social processes create poverty and block the exit chances for certain social groups or for certain individuals.

Over time, several ideological approaches emerged on poverty:

- neoliberal perspective: it advocates minimal governmental intervention in the economy, leaving the market to operate freely and individuals to struggle on their own to secure their living;
- conservationist perspective (Zamfir and Zamfir, 1995) accepts the moderate intervention of the state, not specifically for poverty prevention, but as support, without great financial effort;
- social-democracy: it is represented especially by the labourists in the United Kingdom and by Scandinavian governments and it advocates poverty reduction by a combination of social and economic policies, state being a well represented actor on the labour market by reducing unemployment;
- socialism: from the second part of the twentieth century considers that capitalist economy should be replaced with an economy that focuses on common property on production means and that this will remove poverty.

In present there are various combinations represented in different governments. The failure of socialism in Europe and its persistence in the most dynamic economy (China) shows that these ideologies should be reconsidered.

Causes of poverty

In a world in which poverty is occurring, in different proportions in all countries, the causes of poverty are manifold. They are explained by applying various points of views as follows:

- Individual crisis: the poverty's psychology considers that poor are the ones that are guilty for their poverty. Thus, the society, although it should not neglect their help, it should be tuff with them in a sense that support should not encourage them to remain in this status, but to push them to find solutions to their own needs.
- Economic and social explanations: poor are the victims of the society and are not guilty for their status. Thus, poverty could be controlled through governmental policies that stimulate job creation, provide housing, and education. Poor could be characterized by many policy values that are similar to the average population. Dostoyevsky said that not poverty, but misery is a vice, while poor still keep the nobles of innate feelings.
- Political explanations: causes of poverty are in the bad functioning of the institutions. Meanwhile, poor should make everything to outrun their status.
- The interacting perspective focuses on how people perceive and define elements that influence life. Their perception on poverty creates their vision about life, and this strengthens poverty and living in poor communities discourage them to change the situation. Solutions are investments in poor areas.
- The theory of social labelling of poor is important from the perspective of survival, assessment and take-off from poverty. If poor are labelled as lazy, incompetent, immoral, listless these will not find the energy needed to change their faith.
- Cultural explanations: poor create their own culture that lead to the creation of their own world from which they do not desire to break out. The culture of poverty is not only a way of living, but also a reaction (negative) to the poverty status.

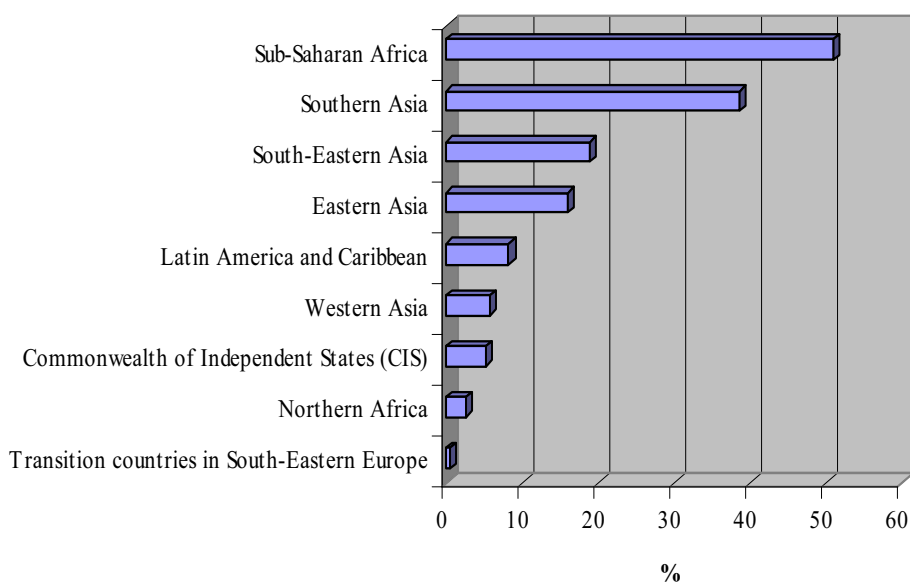
There is little chance to find all these perspectives confirmed by reality, which represents a mixture of these causes in various proportions. Among the most widely accepted opinions on the barriers for outrunning poverty it the one according to which breaking out from poverty is prevented mainly by the lack of motivation and hope; it is necessary to change the listless status, the fatalist attitude that undermines the fight and reduces the chances to escape from poverty and go beyond survival.

Walter (1921) was convinced that "capitalism has a structure that is comparable with the one of the religion and would serve the satisfaction of the same worries, anxieties, and hopes. But, the religion of capitalism has a basic weakness: do not save, do not forgive, and do not serve "the reformation of living", but simply transform people in individuals that have debts one to another."

The size of the issue

Poverty is not only a long lasting issue, but also an issue that has significant amplitude. Some numerical data is illustrative at this point:

- According to the World Bank, 80% of the world population lives with less than ten dollars per day. Out of this, more than three billion people (almost half of the Earth inhabitants) have 2.5 dollars per day as income, and the poorest live on less than one dollar daily.
- In Europe, poverty affects around 80 million individuals.
- In Romania, in 2008, there were recorded 1.25 million persons who lived below the poverty threshold. 70% of these are living in rural area. Gipsy are poor in a 77% proportion.



Source: UN, Millennium Development Goals Report 2010, <http://mdgs.un.org/unsd/mdg/Resources/Static/Data/2010%20Stat%20Annex.pdf>, accessed in 05.01.2011.

Fig. 1. *Proportion of population living with less than 1.25 dollar per day in 2005 at the purchasing power parity*

Sub-Saharan Africa and South-Eastern Asia are leading regions in terms of the proportion of the poorest people. In Sub-Saharan Africa more than half of the population is comprised in this category (50.9%). Although this figure is significant enough, the reality could be even worse since for this indicator there are plenty of countries (Angola, Uganda, Central African Republic, Somalia, Kenya etc.) under the “no data” label in MDG monitor’s interactive map.

“Take-off” from poverty principle

The brief description of the poverty state – as the main social threat – enlightens a number of elements that could be considered within the survival process.

Firstly and above all, poverty is present in all countries of the world, accounting from more than 50% in sub-Saharan Africa and Latin America to 9% in Denmark, 12% in Slovenia, 20% in Italy, and 17% in the European Union.

The second interesting element is the range of poverty assessment, which starts from the level of fulfilling basic needs and goes until the poverty threshold (absolute or relative) posing poverty on several treads. In quantitative terms this means the interval of poverty comprised between the threshold of mean average income and one dollar/day, level that point the installation of social misery.

In this relatively wide area of poverty an individual has the possibility to climb or to descend all treads of living standards. Going up on this road, toward breaking out from poverty (“take-off”) is the goal pursued by survival and is a feature of programs, policies, and strategies made for controlling the poverty phenomenon. If the objective would be to eradicate poverty we will find ourselves within the domain of utopia. The correct formula seems to be to control poverty, not to eradicate it.

In the domain of poverty there is a dynamic environment, with dramatic features among those that enter and those that try and succeed to come out from this sad space. If the statistical interface between poor and rich is made up by the poverty threshold, and this threshold is flexible, the threshold of absolute poverty is stable, close to the value of one dollar per day. At this level should be considered the priorities in approaching poverty control. Here is the start for survival, at the border between “to be or not to be”.

Theoretic and ideological approaches and proposals advanced for reducing poverty level comprise a wide variety of options. This proves, among others, the complexity of the issue (causes, effects, solutions, diversity of historical situations) and the difficulty in finding solutions.

The political organization system of most of the countries makes it difficult to run such programs because: i) the number of poor does not drop significantly; ii) the category of “cropped” countries emerged; developed countries maintain in their social structure a certain proportion of poor that indicates the idea of a tolerable threshold of poor number, according to the difference among people and the regulating role of labour market; iii) gaps between the incomes of poor and rich increase; iv) resource (oil, natural gas, wood, minerals) countries have poor population.

International institutions present the situation of poor in “black and white”, as follows:

Accomplishments: increasing life expectancy at birth to 63 years; number of countries that provided their own food doubled from 25 to 50; literacy degree increased to 68%; infant mortality decreased by 50%, although 34 000 children die

each day; proportion of rural families that have access to safe drinking water increased from 10% to 60%.

Threats to human life: 15% of world population has not enough food, and one of three children suffer from malnutrition; 1.3 billion people have no access to safe drinking water; 1.3 billion people live in absolute poverty; 2/3 of total illiterate are in the poorest countries of the world; in each second a forest area that equals a football arena is deforested.

These considerations could be taken as premises to the proposal of poverty “take-off” principle and secure that it will be taken seriously and it will operate, ordering the Brownian movement of individuals in the domain of poverty in such a way that the trend of breaking out the social condition will be dominant.

Breaking through the tunnel of poverty is difficult task. We propose as guidance the “take-off” principle. The taking-off from poverty would be possible by providing a *perspective* and a *motivation* to make the perspective tangible, external support coming as direct support through investment and jobs, and indirect support through education, health assistance, aid for children etc. for unleashing poor’s latent energies.

These latent energies feed the engine that lead to take-off from poverty. The external aid should be complementary, synergic with the will, desire, and action of poor. A wide range of obstacles should be overcome on the long way from stagnation, anxiety, absolute poverty until take-off using perseverance, motivation, and faith that it is possible to reach and exceed the upper limit of poverty.

Perspective. The sustainable poverty at individual level is very dangerous, being as a chronic illness without hope of recovery. A sustainable poverty form is called subsistence level, which is very close to the poverty threshold. This threshold could be considered as an initial perspective for take-off. The subsistence level, which occurs in case of rural population, proved to be sustainable and is to be preferred to other poverty stages. This *subsistence level* could be used as an attractor for, especially for urban poor who still keep the knowledge of agricultural practices.

Jobs are another attractor, but this attractor could be used only in the case that plenty of jobs could be offered. Governmental investments could be a good solution for this. The example of China is supportive: governmental investments are accomplished using three shifts of workers.

Other perspectives could be: urban agriculture, migration, seasonal employment, interactive tourism, volunteer actions, learning new skills, education of children, household economy, moving in rural area.

Motivation. A second condition of survival is to motivate poor to wish to get out from poverty by a realistic perspective. There are possible two situations: poor who have will and energy to make a change; and poor who do not want to change anything, could not be motivated to overcome their condition.

Motivation could be built by informing and spreading knowledge continuously. This includes up-dating of professional skills, knowledge and application of regulations, order and discipline, physical aspect, social behaviour.

Box nr. 2. External assistance and the poor in Romania

Bucharest: a building prone to demolition is inhabited by the poor collectivity, including tramps and interlopes. The building was in very bad condition, a monument for the human misery (lack of utilities, missing windows, overcrowding, mounting waste, etc.). A representative of European Union (EU) asked the ones who answered her call (only women) what do they expect from God or authorities. The answer was: kinder-gardens and schools for children who should raise and leave a different, better, life

Rural Romania: visiting the poorest rural settlement in Romania, EU's representative asked children in school to show what they brought as a meal. The unfolding bags revealed chips, sweets bought at the boutique in the village. Meanwhile in private gardens apples were decaying on the ground. People explained that nobody buys these apples and that some are used to feed livestock.

The third condition for taking-off from poverty is *external support* that should be provided for poor by governmental, local authorities, or even international institutions. These could be represented by policies, measures, programs that manage poor areas for a certain timeframe. It is important to design this support as an interactive one. Thus during implementation, poor will be pursued to participate in each stages. Although this is a legitimate requirement for such programs, in practice it proved to be difficult to respect it (box no. 2).

External support in Romania

Romanian authorities came to the decision that pupils should receive every morning a cup of milk and a croissant and/or an apple. This was meant as a support measure especially for poor and could be considered as a good move on the behalf of the government.

Looking in depth, some features could be noticed that makes the real intention questionable, as well as the effectiveness of the measure for poverty alienation. Most of the milk and apples used in the program come from imports, while croissants are not made in rural areas, but in county residence being transported by fossil fuel using cars. Meanwhile, the croissant, milk, and apple could be provided in almost all rural areas from local sources. In this the money from local budget remain in the community and contribute to locking the added value for members of this community. Instead, the solution contributes now to the wealth of a wide range of intermediaries.

Another situation related with external support is related to criminality. Among the poor, criminality is usually high. Many poor caught for committing various crimes end up in jail. This is functioning by using public money, including the contribution of the people who are injured by criminals. Nevertheless, during detention, criminals are not prone to work in order to earn the money needed to host them. The possibility to acquire new skills, which are essential for take-off, is limited.

Conclusions

Poverty is of a great concern for almost all governments. It persists, affects a quite wide range of people, and generates delinquency with impact on the wellbeing of the entire society. The international agenda is also headed by this issue, although progress on fulfilling it is small.

Our paper examined some conceptual development, ideologies, and perspectives on the causes of poverty in order to create guidance for taking-off from poverty. We conclude that although the theoretical knowledge is quite advanced, and practical experience is wide, these found a weak representation in practice as it results from the latest MDG Report.

Guidance for “taking-off” from poverty means to provide for the poor perspective – at least the perspective of subsistence or a job, motivation by better information and knowledge spreading, including updating or acquiring new skills, and external support. Romania’s case revealed another important feature of the poor – they are unable or unwilling, in certain circumstances, to manage the resources available for them. It also showed that external support was not very inspired and did not make a significant contribution to poverty alienation, especially due to bad organization.

Further research should further explore the economic and social impact of governmental support in order to find the aspects that should and could be improved. Awareness raising campaign could be also designed for improving both willingness and skills in managing local resources.

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OBSERVATIONS ON SOCIAL AND ECONOMIC WELFARE IN THE EUROPEAN CONTEXT

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Abstract

In the globalization era that we are witnessing, the social problems of welfare and development have become key points on the agendas of European countries and not only. The present economic and political context has proved once more that social welfare represents an essential objective of any society.

As the core objective of any economy is to create goods and services in order to satisfy needs on the one hand and social discontent occurs in societies characterized by obvious inequalities on the other hand, it will be natural that any nation will try to achieve a system producing social-economic welfare or, in other words a welfare economy. The role of the state in this field will consist in the creation of tools and methods which should lead to the redistribution of incomes, as economic welfare in a consumption society is deeply connected to the welfare of individuals, families, groups; consequently the standard of living becomes the most important indicator measuring the level of economic welfare.

The present article is a comparative study of different types of welfare states as well as a comparative presentation of the situation of the welfare states for different European countries.

Key-words: *welfare, welfare state, consumption society, welfare indicators, standard of living, mechanisms of producing welfare*

JEL Classification: D₆₀

Introduction

The present article is an attempt to point out key facts related to the evolution of the welfare state in an European context, bringing in this way a contribution to the clarification and theoretical grounding of this complex concept.

The final decade of the last century and the first decade of the present century have been marked by an accelerated expansion of the globalization process – expression of the neoliberal capitalism domination at a world level. A promoter of the triade liberalization-dereglementation-privatization and of the international integration of national economies, globalization should not be regarded as a force destructing old structures but a force creating new values and identities.

The partisans of globalization believe that it has the potential to bring a higher degree of welfare to everybody while its detractors consider that it has a

devastating effect on developing and under-developed countries. The 2001 Noble prize laureate for economics J.E. Stiglitz believes „that people all over the world should collaborate with the purpose to solve the problems that affect us all no matter their nature: health problems, environmental problems, problems related to economic stability” (2003:425).

The idea of welfare has always been among the main preoccupations of both individuals and governments; it has constituted a subject of reflection and analysis for social and economic thinkers such as: Albert Schweitzer, T.H. Marshall, N.Barr, P.Spieker, A.Pigou, F. Hayek, V.Pareto, J.K.Galbraith or Jeremy Bentham.

Literature Review

The concept of welfare state has a rather recent history. The specialized literature places it somewhere around World War II. In Great Britain it was used in the Beveridge Report in 1942, and it came to refer to the process started at the end of the 19th century by which the state assumed certain functions in assuring collective welfare and social protection. The concept is based on two main components, a redistributive component whose main goal is social welfare and an institutional component – the main actor managing the process of creating welfare is the state, which deals with certain inputs and outputs whose values and balance are supposed to create social welfare.

Theoretical Background

At the same time, we believe that we can speak about three sides of the welfare generation process, all of them playing an essential role in the present European social-economic context and Romania is not an exception. A political component can be identified (welfare is the manifestation of a certain political community’s will) as well as a social component (welfare is the expression of social solidarity) and not ultimately an economic component (as welfare promotes economic development, economic security and stability, the elimination of poverty).

Broadly speaking the welfare state can be defined as the organized power used (by means of political and administrative tools) in order to modify the market forces and tendencies in three different directions:

- the guarantee of a minimum income;
- the reduction of the insecurity degree (in case of illness, old age, unemployment);
- the offering of certain social services (at optimal standards) to all the citizens.

There are certain theories regarding the birth of the welfare concept and necessity. Industrialization is considered as the key factor promoting welfare in the earlier stages of its study. Christopher Pierson (1991) enumerates among the most important the decline of rural population and population employed in agriculture, the development of urban areas with a specific lifestyle, the creation of a more and more educated urban working class who became aware of certain states that had to be recognized as such and dealt with properly: unemployment, old age, work

incapacity because of illness, accidents, etc. From this perspective the welfare state appears as an outcome of the needs generated by the development of industrial societies.

The modernization thesis considers the welfare state as the product of two revolutionary changes the industrial one – just like in the previous theory and the political one which was translated in the birth and development of more and more citizens' rights, among which one of the most important is the universal suffrage, which had as a consequence the re-invention of political parties as mass political parties. World politics and intercultural exchanges have led to the consolidation of welfare states.

A third theoretical assumption and the last one we are going to mention refers to power resources model. According to this third model not only economic and social developments contributed to the birth of the welfare state but also the political powers in a state. The power resources that can be mobilized by a state are deeply connected to the social classes and the fight between the logics of the economy and the logics of politics have led to the creation and development of social citizenship and welfare state.

Types of Welfare States

Economic, social, statistical researches have revealed that there are differences among countries regarding their effort to assure their citizens' welfare. We owe to Richard Titmuss (1970, 1997) one of the first professional attempts in classifying the types of welfare states in terms of their strategy.

The minimum (residual) welfare state has a very low degree of involvement in the creation of welfare for its citizens. It assumes a low degree of responsibility in terms of welfare and only a limited number of citizens enjoy the support of the state; the premises of this model is that the basic needs of an individual can be fully satisfied by two natural entities: the market economy and the family. Only when these two entities fail or disappear will the state take responsibility for the welfare of a citizen. Low taxes and low public expenses are among its main characteristics as well as limited social transfers which are not oriented towards reducing social inequalities.

Such a welfare state is characteristic for traditionally liberal countries: the USA, the UK, Canada and Australia.

A second model is the model of the industrial state for reaching performances which places a great importance on satisfying social needs according to productivity and individual performance. Germany is an example of such a state.

The model of the institutional state redistributing welfare considers welfare as a major institution and objective. It respects the principle of universality as the whole community benefits from the welfare policies and it is highly oriented towards reducing social inequalities. Typical examples of such welfare states are the Scandinavian countries, the Netherlands, Austria.

Another interesting classification belongs to Gosta Esping-Andersen (1990) who uses different criteria in classifying welfare states. The researcher

suggests an analysis that should take into account characteristics of a structural nature such as the degree of universal access to benefits, the degree of differentiation of social benefits by social groups, the ratio between the public and the private pension system. The result is a classification of welfare states into three types: strongly liberal states (Australia, Canada, Japan and Switzerland), strongly conservatory states (Austria, Belgium, France, Germany, Italy) and strongly socialist states (Denmark, Finland, the Netherlands, Norway, and Sweden).

The strongly liberal welfare state is dominated by the logics of the market and the rules for benefiting from the state support are very strict.

The strongly conservative welfare state offers the church a strong role and the traditional family is considered very important. The principle of subsidiarity is also very well represented, that is the state will intervene to regulate only situations that cannot be solved by the family or the church.

The socialist (social-democrat) welfare state privileges universal equality and the state is not just one of the factors dealing with the assurance of social support but the main actor in the process of creating the social and economic welfare of its citizens.

We should nevertheless mention that there is no state that should fall completely under one of these categories; real state just borrows more or less characteristics from one or more of the above mentioned categories.

As far as Romania is concerned, the domain of social policies is still in a phase of research and defining, a phase of assuming an identity.

Four decades of communism have changed not only the face of the Romanian economy but also the way people situate themselves in their relationship with the state. Only younger generations which have now emerged on the labor market are characterized by a different relationship with the state which is no longer seen as the powerful entity which should take care of us all. The welfare state needed to be completely re-defined after 1989 in order to meet the requirements of the market economy. Another key stage in its re-definition was the European Union accession which shaped the Romanian welfare state even more and offered it its main present characteristics but we should not forget about the international economic crisis which has left strong marks on the characteristics of welfare policies all over the world.

As in all the other former socialist countries, the institutionalization of social policies during the period of transition to democracy had a strong impact upon the outcomes of such policies. New social policy legislation was adopted but in a rather slow rhythm. For example, until 1995 there was no important new social policy legislation with the single exception of the universalization of child allowance in 1993. New regulations in the fields of education or health responded only to immediate necessities. However the situation changed starting with the mid-1990's. The trade unions lost their great power and workers gradually became the main losers of transitions and they have kept a rather limited power to negotiate (a situation which is still valid today).

In parallel expenditures on pensions and health increased and international actors have started to have an impact on the adoption of certain legislation in the

field of welfare policies: the World Bank offered guidelines in the field of social assistance, the ILO contributed to employment policies while UNICEF was involved in the reformation of child care legislation. Many international organizations have focused their activities towards capacity building (they offered monitoring expertise to that the administrative capacity of the Romanian state should strengthen).

After 1989 the social services had a slow development in Romania on the one hand because they require high involvement of local actors and on the other hand because they needed the emergence of expert system and complex financial and accountability systems.

The most underdeveloped areas of social protection are still those that rely on social services, such as social care, social integration of the disabled, community services for the elderly and other disadvantaged groups.

However the involvement of international organizations helped to the change and creation of new legislation but the inadequate institutional capacity at local level slowed down the reform.

In the area of social security reforms most delays and problems were (and still are) encountered in the domains that depend on the state in a high degree, such as the pension reform. The first major step in reforming the Romanian pension system was taken very late, in 2001 when the formula by which the benefit level used to be calculated was modified in order to better reflect the correlation between the contribution level during the whole career period of a person and the level of the pension he or she would receive at the end of the career. The first consequence was a negative one, the substantial lowering of pensions for those to be retired.

The law regarding privately administered public pensions funds (second pillar) was passed in 2004 and was followed a year later by a framework legislation regarding the creation, organization and functioning of the Monitoring Commission of the Private Pension System. The system has already been implemented and it fits the CEE reform pattern inspired by the World Bank. In the near future it seems that great difficulties will be generated by the traditional pension system, more exactly by some of its main characteristics: high dependency ratio, low coverage of rural population.

Although more than two decades have passed since Romania has become a market economy implementing welfare reforms it is very difficult to place it in one or the other welfare state categories, a situation which is characteristic for most former communist countries. The accession to the EU has changed things even more as it is now supposed to implement European regulations.

For example in our country, as in the rest of the CEE countries reforms of social assistance and family benefits have followed a neo-liberal trend, the reforms aiming at offering a minimal social protection while adhering to an austerity state budget and reducing fiscal burdens. The coverage and level of benefits decreased while social contributions and taxes were maintained at a high level. More than that, pressure on social expenditure continued to increase as the employment rate decreased and the number of pensioners increased.

Conclusions

Researchers dealing with the concepts of welfare and welfare state have attempted to offer them various definitions and characterizations. It is nevertheless difficult to place a state in exactly one category and Romania is no exception. If the economic crisis is to be taken into account a classification becomes even more difficult using the existing patterns. A re-design of the definition of the welfare state might prove to be necessary after the experience that all the world's states have undergone during the past few years.

As far as Romania is concerned, after the transition to democracy the generation and implementation of social policies were shaped by domestic pressures (Chirimbu, 2007). By contrast, after the mid 1990's policies were highly influenced by the involvement of international actors, which aimed at shaping the content of legislation according to a neo-liberal ideology. International NGO-s and consultancy firms had an impact on the development on local knowledge and expertise, especially in the light of Romania's pre-accession to the EU efforts.

The concept of welfare state is nowadays an ever complex one. Assuring an optimal welfare level to all its citizens has become a great challenge for all state, all the more for Central and Eastern European ones.

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THE POWER OF THE MESSAGE – THE KEY TO SUCCESS IN SOCIAL MARKETING CAMPAIGN AN ANALYSIS OF SOCIAL MARKETING IN ROMANIA

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Abstract

The success of a social marketing campaign does not depend mainly on its budget but rather on the message that is sent. This article emphasizes the importance of the message for successful social marketing campaigns and makes an analysis of the messages' type/structure of leading social marketing campaigns in Romania, as a defining element contributing to the success of social marketing campaigns.

Being aware of the importance of the message for a successful social marketing campaign, we propose, in this article, some ideas for improving the message structure transmitted in social marketing campaigns.

Although, social marketing campaigns are run with significant funds, small importance is being given to evaluating campaign's effectiveness and the extent to which the social behaviour of the targeted segments is truly changed. Research was conducted in order to identify the ways in which the use of other types of messages would increase the impact of social marketing campaigns.

Key-words: *social marketing, behaviour change, effectiveness*

JEL Classification: M₃₁

Introduction

The message is the result of a creative idea that advertising agencies develop, capable of producing enough to be a message delivered to consumers by the media (Epure M., Vasilescu R., 2009)

A creative idea may be defined as an original and creative thought conceived to generate advertisements that reach targets directly and to resolve problems. According to others, a creative idea must draw attention and should work as a catalyst in the sense that it should create a chemical reaction to immediately understand the position of the market (De Pelsmacker P., Geuens M., Van den Bergh J., 2005). Imagination is more than is just different. Making the simple complicated is common, making the complicated simple, impressively simple, it is creative (Centlivre L., 1988). In essence, a creative idea seems to be reduced to a proposal whereby it is possible to communicate brand position in an

original way that attracts attention. Several researchers argue about the subject that imagination is probably the key of advertising, and we agree with this argument. Why? Because it is simple: look at Volkswagen Beetle with its “think small” – turning the small into a size advantage in competition. Besides the need for a creative idea to develop effective advertising, it is questionable how creative the ad itself must be. Two different types of calls can be creatively distinguished: calls with rational and emotional appeals. Rational appeals consist of: before speaking, demonstration, problem solving, testimonials, slice of life adaptation, and comparative ads. Uses of emotional appeals include: humour, fear, warmth, eroticism, music, etc. to influence, persuade consumers to buy.

From an ethical standpoint, but in a radical way of thinking, emotional appeals are difficult to keep within reasonable ethical boundaries, which are so easy to cross! We present in our case studies the main aspects of the use of emotional words, signs and images that end up being unconvincing, not relevant or even inefficient. The advertising message mainly contains information such as: price, quality, execution, components, availability, special offers, taste, nutrition, packaging, safeguards, security, independent research, corporate research and even new ideas.

The media is the vehicle through which the message is transmitted to the audience. Ads are everywhere: on TV, radio, newspapers, pop-ups from the Internet, brochures, advertisements postcards, and we feel most of the time suffocated by them. So we end up being very selective.

The impact of advertising depends on past experience and education of an individual and, therefore, it may go beyond simple commercial purposes, and may be used in the public interest. The advertising is, after all, an educational tool capable of reaching and motivating large audiences.

Social marketing – introducing concepts and perceptions

The term *social marketing* was first introduced by Philip Kotler and Gerald Zaltman, in the Journal of marketing, to describe “the use of marketing principles and techniques to advance a social cause, idea or behavior” (Kotler, P. and Zaltman G., 1971), launching the discipline formally in 1971.

Social marketing is the use of marketing principles and techniques to influence a target audience to voluntarily accept, reject, modify or abandon a behaviour for the benefit of individuals, groups or society as a whole (improving health, preventing injuries, protecting the environment or contributing to the community). In fact, social marketing has been viewed by a significant number of practitioners as a systematic application of marketing alongside other concepts and techniques to achieve specific behavioural goals, for a social or public good (Tulchinsky TH, Varavikova E, 2009). It aims to achieve a measurable impact on what people actually do. It does not just focus on achieving changes in behaviour, but takes a much wider approach to focus on how to promote, establish and sustain changes over time.

Social marketers utilize in “selling” behaviour change the same techniques that commercial sector marketers use to sell products or services: a focus on its consumers, market research, and a systematic process for developing a marketing program. The key characteristic that distinguishes social marketing from commercial marketing is its purpose (Weinreich N.K., 1999); that is, the benefits accrue to the individual or society rather than to the marketer’s organizations. Usually, social marketers cannot promise a direct benefit or immediate payback in return for a proposed behaviour change.

Using the messages in Romanian social marketing campaign

In Romania, dozens of campaigns presenting the dangers of drugs consumption have been developed formally. It is unclear whether these campaigns have achieved their targets because the campaigns have not had a precise purpose, have not measured the effects and no database was created in which to record the campaign’s main features and proposals for improvement, in order to improve the campaign’s results.

Some campaigns have used propaganda messages, focusing on the negative effects of drugs, cigarette, child maltreatment, etc., based on the idea that fear is what will keep them away from harmful behaviour. These campaigns are not effective on anyone other than on those who do not plan to use drugs, do not want to smoke, etc, while those who are at risk are not affected by this kind of message. These campaigns have only served to provoke fear in the population with direct effect in stigmatizing drug users, smokers, people with AIDS and override behaviour in children, seen as innocent beings who can fall prey to the white death.

Most times, the messages that reach the public through these campaigns are verdicts such as: drugs kill, white death, drugs ruin everything, drugs steal dreams, drugs consumers go to jail. If we consider the effect of slogans that can be found on packs of cigarettes, we can say that these kinds of messages, which appeal to hard feelings, did not stop the effect of drugs. A solution would be to use rational messages to communicate the positive action that the target should adopt, and to address the targeted person with possible alternatives to chose from, rather than to stigmatize him/her.

It often happens that agencies put too much emphasis on the creative side, trying to send messages through wordplay or using words, images, music, characters, etc. that can sometimes generate exaggerated emotions. Consequently, a person who hears the message for the first time may not wish to hear it again. Unfortunately, few messages succeed to traverse the entire process, from awareness to behavioural change. Therefore, whatever the message is, it should be defined *a priori* by the organization initiating the campaign because it knows exactly what the objectives and characteristics of the project are. Representatives of all stakeholders should be invited to a debate session, whereas each contributor is expected to promote the aim of an intervention in terms of a specific behaviour. Unfortunately, this type of co-operation is not a common procedure in Romania –

the beneficiary representatives are often exactly the ones who are missing. However, the role of the advertising agency is particularly important.

The initiators of the social marketing campaigns and the advertising agencies are facing the following challenges (Koetler P., Keller K. L., 2008): What to say (message content)? How to say it logically (message structure)? How to say it in a symbolic way (as message)? in order to attract attention through the message, to establish a direct link between the message's content and the social campaign initiators purposes and to match the message's perception with the core of the message that they want to be sent.

A social marketing specialist's job is to teach people different behaviours, seen as beneficial for society as a whole. In some situations we talk about learning new behaviours (such as healthy eating), in others increasing the frequency of exhibiting good behaviour (such as reading, playing sports) or removing a certain type of behavior that is considered harmful to society (such as to quit smoking, not to be drugged, etc.).

A variety of methods must be applied for each of these behaviours, which in turn would have to prove their effectiveness. If social marketing has failed to make certain methods efficient, one may adapt methods from other fields such as education. Ultimately, the purpose of social marketing campaigns is to develop specific types of behaviour, to teach and to train individuals to accept these behavioural changes. In fact, the behaviour is the result of a learning process.

Analyzing several campaigns, we can conclude that the most common method used for learning or changing a certain type of behaviour is providing information. In almost all spots or posters one may find sentences like: "Stop human trafficking", "Violence against children must stop", "Listen to their rights and defend them", "Donate blood", "Vote!", etc. How effective do you think these slogans are? Did the messages really change behaviour? If anyone says to you "smoking kills" or "do not smoke!", will you quit smoking tomorrow? It seems that if people continue to smoke (and the number of smokers is increasing) these campaigns clearly had no effect on a large scale. Simple assertions of desire or need do not make individuals change their behaviour. We can also provide examples of campaigns that use messages like "do not drive drunk" or "do not beat your child". The reality of life shows us that none of these messages are successful. Why is this happening? A first explanation, which psychology gives us, is that information alone does not change the behaviour. No matter how much we tell someone *what to do* or *what not to do*, that person will continue to behave in the same way. What can we do about it?

A very simple method that we think would be successful is promoting discipline, or rather teaching it (Petrovai D.). Discipline teaches children to be responsible for their own behaviour, to have self-control and self-discipline, to prevent the development, or the maintenance, of behavioural problems. Teaching discipline can be done at any age. After all, the behavioural problems that social marketing is trying to solve are due to ignorance, lack of information or lack of responsibility. The behavioural problems are those which occur not only in childhood, but also in adulthood. Perhaps problems, such as

obesity or drug use, are the result of the individual's lack of discipline in the childhood age. Discipline is a learning method not a punitive one! (Petrovai D.).

Psychologists say that the individual's self-confidence development is the background of any particular learning process and learned behaviours. Then, we suggest that messages used in social marketing campaigns should promote or sustain the idea of trust (and not to condemn or punish, as it often happens).

It provides the individuals that the campaign is addressing with the opportunity to choose between two or more options. This can be a very useful and efficient way to improve the decision –taking process. Instead of saying “NO” (not X or not Y) it will be more useful to provide an alternative: *Tell him what to do!* When you tell someone what NOT to do, it becomes difficult for him to search and to choose a better behavioural alternative.

So instead of saying “no smoking” or “stop using drugs” we can rephrase the message content as follows: “*it is better to be healthy and to enjoy life: do sports, play music, make friends, etc., find the activity that you enjoy and that keeps you healthy*”. *Discover your inner potential and enjoy the results!* We believe that it is more important to transmit positive messages in the sense that any behavioural problem is just an opportunity for the individuals to explore themselves and to learn new behaviours – the positive ones. A mistake is just an opportunity to learn. Instead of putting drug addicts against the wall and blaming them, it is more desirable to send messages to the effect that a mistake is an opportunity to learn and to grow as a person, and to identify at least one alternative to solve the drug problem without hiding the problem or blaming others for it. *What options do I have to solve my problem?*

The marketing manager should pay particular attention to coding and decoding the advert. The importance of these actions comes out of the risk of not being correctly understood. An erroneous example is: *Your money enriches the organized crime! Your Money kills souls!* This message wants to convey that human trafficking should not be encouraged. According to the source, *The target group of this social marketing campaign consists of customers of any kind, especially men, who use sexual services of women who may be the victims of trafficking. These are customers who undertake work without a contract, for cheap wages, and those who give money to beggars that may be required to do so.* (anitp.mai.gov.ro/ro/campanii/banii_tai.php). Evidently, even the stated intention of the message is difficult to comprehend. Furthermore, according to the information posted on the agency's website, one of the strategies discussed was to inform students about human trafficking, to raise awareness of the phenomenon and also to make sure that the members of high risk groups (such as families with low living standards, children at risk of dropping out of school, young people coming from orphanages) have access to this information. The message might be misunderstood by the people who received it. In addition, can we talk about “your money” when we are addressing children? People who hear the slogan for the first time may even feel attacked or offended.

Indeed the message is a very important element of the marketing strategy when it has to persuade individuals to adopt a certain behaviour, no matter the

kind: consumer behaviour or social behaviour. Words help us to identify a product and a certain brand and even to learn right from wrong.

To answer the question: „what to communicate?“ the advertiser must know and understand the target group composition and to find the right way to address it. The message cannot concentrate only on the objectives of the social campaign; it must be based on understanding the reasons of the real individual's motivation and to reveal the real drivers of social behaviour. Knowing the problems, preferences and expectations of the target group is essential for selecting the correct message.

Conclusion

What sort of symbols and words should be chosen for Romanians to convey the right message in a decent manner, ethically correct and which can lead to a certain desired behavioural change? It is not an easy to answer question. We are still looking for the optimum. Will we be able to design it? Not sure yet, but certainly we will raise interesting debates on this subject, and maybe we will instigate a deeper reflection among social marketing campaign initiators. Social marketing messages should emphasis what is being offered to the targeted audience. The message is a powerful instrument in the service of social marketing and helps social marketing to achieve its goals, but the message's power can be sustained only if the conduct learning activities are considered beneficial to the entire organization and society.

Using observation-based research methods and conducting a comparative analysis of social marketing initiatives, we conclude that there is generally a lack of a clear long-term “offer”. If the audience cannot clearly and easily identify the benefits they are not motivated to follow the advices circulated through the social marketing campaign. Sometimes, the “artistic” presentation of the message hides the message's core and the language and semiotics confuse the main audience. Emotional impact is supposed to be rich not in an artistic way, but mainly in a direct and powerful way: common language with great impact (such as *Smoking kills*).

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CSR – A MARKETING TOOL?

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Abstract

Starting from the idea that investing in CSR creates value not only for the company's stakeholders, but especially for the company itself, in this article, using secondary data analysis, we try to answer the question: is CSR a sign of responsibility or just a marketing tool for promoting the business?

The purpose of this paper is to bring contributions in highlighting the nature of the connection between CSR and Marketing, using the secondary data analyze of the annual reports of some companies. Companies that usually use the annual report as a marketing or communication tool for voluntary disclosure of non financial information to their various stakeholders, including shareholders, employees, customers, suppliers, media and government, and to develop a particular brand image for the organization although the report is sometimes a financial one.

Key-words: *Corporate social responsibility, large-sized companies, marketing, company's annual report, company image*

JEL Classification: M₁₄, M₃₁, M₃₇

Introduction

In the globalization context, the awareness of social and environment responsible actions have significantly grown. Besides that, the companies need for being responsible was felt by both companies and stakeholders, so the society began imposing restrictions on the irrational behaviour of companies.

Corporate social responsibility (CSR) represents a young concept without a generally accepted definition. According to the European Commission, CSR appears when: “companies decide voluntarily to contribute to a better society and a cleaner environment ... going beyond compliance and investing into human capital, the environment and the relations with stakeholders”.

Company managers must be aware of the fact that they will have successful business only if they contribute to sustainable development. An inefficient usage of the resources does not only raise the production costs, but also goes to the exhaustion of the non-renewable resources. This is also the reason why we choose to research this theme, in order to emphasize the manner in which companies perceive CSR: as their obligation towards the community and the next

generations or as a simple marketing tool used only to create a positive image of the company for a higher profit.

CSR has been considered an efficient marketing tool for gaining the competitive advantages a company needs in order to be on top in the context of the current hyper competitive environment.

There is still a great deal of public scepticism and suspicion in relation to CSR. For instance, Amnesty International views CSR as a PR invention. The Corporate Watch 2006 Report makes similar comments. The latter states that ‘‘like the iceberg, most CSR activity is invisible... It is often an active attempt to increase corporate dominations rather than simply a defensive ‘image management’ operation’’.

Literature Review

According to Ogrizek (2002), CSR is all about competing beyond technology, quality services and price. He defines the purpose of CSR to embrace not only charitable, philanthropy and community involvement activities but also business practices including environment management system, human resource policy and strategic investment for sustainable future.

„Doing well by doing good’’ (Stroup and Newbert, 1987) becomes a motto of large-sized companies which, starting CSR initiatives and using marketing tools in order to make their initiatives relevant to the stakeholders by influencing their decisions, use the win-win strategy out of which each stakeholder has a benefit. Basically, the company gets an image enhancement which will increase its profit on long term, while stakeholders are enjoying the responsible investments (Chahal and Sharma, 2006).

Handelman and Stephen (1999) argue that due to the positive relation between CSR and Business performance, companies are found to be successfully integrating public purpose marketing with their economic oriented marketing strategies.

Carroll (1998) claims the existence of four CSR dimensions: economic, legal, ethical and philanthropic. CSR starts with economic profitability which is ensured by continuously providing a large range of products and services. The second dimension is considered to be the legal compliance, although the stakeholders’ interests might not be fully protected because of the minimal standards of laws and regulations. The ethic corporatist behaviour refers to using rational principles in creating the company policy in order to emphasize not only what a company can do but also what it must do. The philanthropic dimension focuses on the others’ lives improvement through voluntary services and donations.

CSR...

While some authors claim the commitment of companies in CSR activities in order to avoid negative impacts instead of being driven by a will to make a social betterment, we sustain that companies, by using annual reports found a good instrument for promoting and advertising; in order to change the consumers’

behaviour and influence their decisions companies offer information. For example RMGC communicates through its annual reports information about the project, the cultural and social activities (Burja and Mihalache, 2010) for making us believe that their activities are in the very benefit of the community, and especially determine the society to accept its projects, taking into account their activities' impact on the environment.

RMGC just like British Petroleum, which is another company that publishes annual reports, uses the same technologies that prove to be catastrophic for the environment. What both companies have in common are the symbols and the colours presented on their sites. The green colour is used almost as the site background as a reference to nature and unpolluted environment. Another common symbol is the yellow flower as a sun reference.

...and Marketing

Marketing generally must address and enhance the values of the stakeholders and the society, which can mean that CSR is an inherent aspect of marketing nature. Marketing literature adopts a CSR approach according to which the concept is based on the notion of stakeholders' expectations.

From the marketing point of view, the economic benefits obtained by the company using CSR activities, are directly related to consumers' positive evaluation of products and brands, brand choice and brand recommendations.

As marketing tools, companies use both traditional marketing instruments like PR, and non-traditional marketing tools like off-media communication and web-based marketing. The companies methods for information dissemination in order to create the company marketing-mix depend on the company's adopted policies, its products position on the market and the field they activate in.

Traditional marketing refers to mass-media advertising, PR campaigns, and messages that are intended to be transmitted to consumers through packaging and symbols. Traditional marketing is highly connected to marketing strategies adopted by the company, in the case of CSR, the Cause Related Marketing. The latter is an excellent tool used for maintaining or improving consumer's brand loyalty.

Non-traditional marketing includes recently undertaken techniques. It tries to sell a product or a company, this issue being unnoticeable for the consumer – subliminal messages.

The specialists (Enginkaya et al., 2009) reached the conclusion that there might be three different approaches regarding CSR integration in marketing activity. Thus, the first approach is the integrated one which appears when the brand and CSR act synchronically. The selective approach occurs when CSR activities are unconsciously expressed in very specific and purposeful ways. The invisible approach occurs when CSR plays a strategic and philosophic role at the company's management, but it is not so important for the communication with stakeholders or for starting some new initiatives (Banytė, Gadeikienė, 2008).

Communication – A Marketing Tool

Concerning the company survival on the market, which is characterized by intense competition, rapid technological progress, it must be competent and responsible, and that implies a meaningful and effective internal and external communication, in order to create a positive image of the organization.

Communication is meant to create a public image, while the promotion's main objective regards the public behaviour, connected to ensuring financial advantages. Promotion is also presented as an assembly of marketing activities that stimulate consumer shopping, and it includes communication, PR, publicity and selling.

The company's communication methods with the market are very diverse; they can be classified in: personal communication – the salesman speaks directly to the client; communication through publicity – considered less efficient and more expensive; and other methods that include promoting, annual reports, etc.

The company's communication activities on CSR initiatives are considered part of the company's effort to promote in order to create a public responsible image to be transformed into profit. The larger the profit is, the larger the number of company's CSR initiatives is. Also, the companies communicate the CSR initiatives for maintaining or increasing their legitimacy.

One company may also choose to limit its communication of CSR activities. TNT Company chose silence-speaks-louder-than-words-policy (Kotler and Lee, 2005, "do good and let the others speak about it") when starting „Moving the World” initiative. TNT chose to offer free expertise and funding for five years, a period in which they abstained from any proactive external marketing communication activities regarding the initiative. This strategy proved to be efficient because media promoted the company for free. The image of a company is even more positive if its promotion is done by a stakeholder and not by its marketing department (Ven, 2008).

According to Dawkins and Ngunjiri (2008), the main reasons the companies engage in CSR initiatives are: to maintain and enhance perceptions of legitimacy, to manage the perceptions of the key stakeholders, as a reflection of their corporate values. We would also add that through these CSR actions, the large-sized companies might try to prevent any community problems which might affect their image.

Legitimacy is a generalized perception that the actions of an entity are in compliance with a system of norms, values and social beliefs of a community (Suchman, 1995). This means that the stakeholders have the power to influence the behaviour of a company if its actions do not comply with social expectations or has no legitimacy. Practice shows that companies' reporting focuses on the segment where stakeholders' legitimacy is questionable. Relevant examples are those of oil companies, which invest in environmental activities precisely because their products are polluting and directly affecting the environment. Jahdi and Acikdilli (2009) argue that companies like British Petroleum or Shell, use advertising in The Guardian to promote their Green Initiatives. In the same newspaper, Shell claims to

have come to save the world, arguing that „tackling climate change and providing fuel for a growing population seems like an impossible problem, but at Shell we try to think creatively” (Jahdi and Acikdilli, 2009).

The same authors claim that in 2000, Shell said it would invest 1 billion dollars in Renewable Energy between 2001 and 2005, and that the company would invest significantly in wind energy; however there have been no tangible results after these statements.

Another category of companies that adopted green strategies is represented by car manufacturers and other companies whose products are considered to be true environmental pollutants by stakeholders. These companies include Fiat which chose the low price of products in combination with ecology, while companies like Toyota, Volkswagen and EasyJet have been under the spotlight for misleading claims about their environmental credentials of their products.

Conclusions

Therefore, it can be concluded that the organizations provide information through various methods in order to influence the stakeholder perception on the company. Thus, companies with a higher transparency reflect better corporate governance.

Another conclusion is that the main purpose of communication is to influence an action. It tends to influence or alter perceptions, attitudes, behaviours, and feelings, opinions of an individual or of a group. This means that companies, by their communicating actions are trying to influence the others' behaviour, and they use the CSR annual reports in order to manipulate the company image or the stakeholders mind; they use CSR to change the consumers' behaviour.

Thus, indeed, one of the reasons why companies have entered social responsibility initiatives is to influence the perception of the stakeholders on the company, to create a good image of the company's long-term picture which would bring higher profits. But in the same time we must take into consideration that this is a win-win strategy that brings benefits not only for the company but also for the stakeholders.

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AIR QUALITY IN ROMANIA. MAIN POLLUTANT EMISSIONS AND FINANCING POSSIBILITIES FOR EMISSION REDUCTION

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Abstract

Air is the environmental factor which is the most important for pollutants transport because it is the support for the fastest transportation throughout the environment. Reducing polluting emissions in air remains a field in which there are needed important investments, considering the commitments assumed by Romania for reducing emissions and the poor quality of the air in certain areas. The paper analyzes the evolution of the main emissions, respectively the ones coming from large burning installations and greenhouse gases and identifies financing possibilities for the reduction of those emissions by using structural and cohesion funds or by using state aid schemes.

Key-words: *air pollution, emissions reduction, large burning installations, financing, Romania*

JEL Classification: Q₅₃, Q₅₄, Q₅₈

Introduction

Air is the environmental factor that contributes greatly to the spreading of pollutants, since in air this process records the highest velocity. In order to evaluate air pollution levels pollutant emissions are calculated by using specific technical devices and methodologies that consider emission factors, activity indicators and dispersion patterns. Fact is, air pollution is difficult to avoid by population or ecosystems. Meanwhile, the emission of greenhouse gases triggers the most challenging environmental issue of the contemporary society – climate change.

The paper intends to build a comprehensive picture on air quality in Romania based on emission data and to reveal the possibilities for securing financial means for emission reduction considering the current framework of European integration. Therefore, in the first section an analysis of pollutants emissions that affect air quality at local and regional scale will be made along with an analyzed of greenhouse gas emissions coming from large burning installations. Further, we will look at the policy framework developed in order to address this issue and how this development created the resources needed for financing new

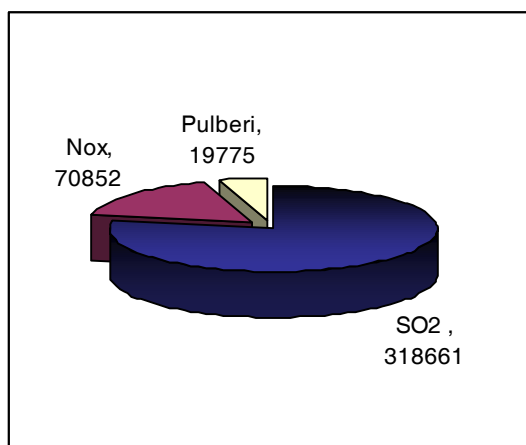
technologies acquired in order to reduce emissions towards, an improved air quality.

Various aspects of environmental degradation and protection are more and more present in the economic literature which provides plenty of theoretical approaches and practical examples on progresses made. Nevertheless, there is little indication on the criteria that could be useful in building a financing architecture that avoids trade-offs among various governmental supports within a relatively new political framework.

Emissions and air quality in Romania

In Romania, air quality data show that we are facing an improvement because of the reduction of economic activities, especially in industrial production that uses large burning installations. The size of emission reduction is estimated to be 50% for most of the pollutants compared with the pre-1990 period.

Air pollution. Romania is still relying mainly on conventional fuels such as crude oil and coal (46%), used for providing urban populations with heating and hot water. Emissions of large burning installations (LBI) represent the most important source of total sulphur dioxide and nitrogen oxides emissions in urban areas, contributing to acidification and troposphere ozone occurrence. According to NEPA (2009), in Romania there are 174 LBI – power and thermal plants with a thermal power equal to or larger than 50 MW that use mainly fossil fuels. The structure of emissions by pollutants is presented in fig.1.

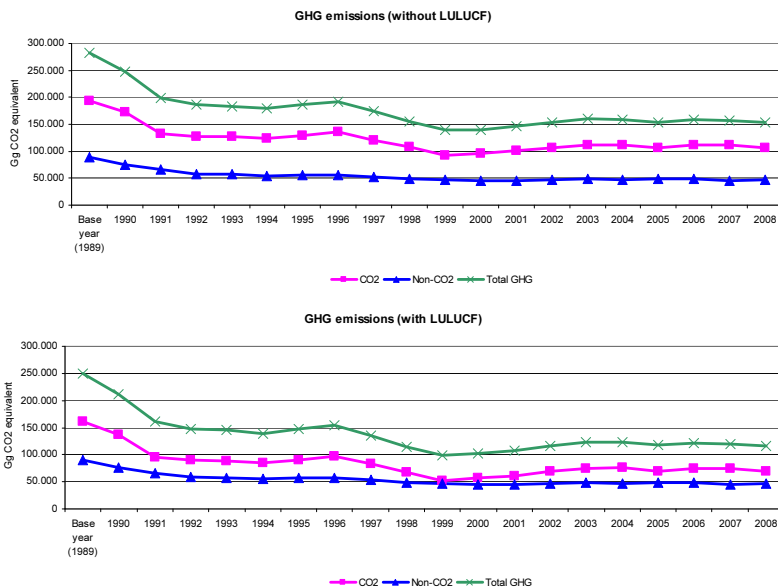


Source: NEPA (2009), *Annual report on the state of the environment in Romania*, http://www.anpm.ro/upload/16097_2%20ATMOSFERA%202009.pdf, accessed in 03.01.2011.

Fig. 1. *The structure of emissions by pollutant*

The main source of sulfur dioxide and nitrogen oxide emissions are burning processes in energy production and transformation industries, followed by

road transportation and processing industries. Particle matter represents another important pollutant for which significant excess of emission standards are recorded. They are coming from a variety of sources: the iron and steel industry; thermal plants that use solid fossil fuels; concrete plants; road transportation, industrial waste deposits, etc. Settlements where the highest pollution levels are recorded are Reșița, Bistrița-Năsăud, Câmpulung, Brașov, Zalău, Vaslui, Miercurea Ciuc, Gheorghieni, Rovinari, Motru, Constanța, and Iași.



Source: UNFCCC, GHG emission profiles for Annex I Parties and major groups, http://unfccc.int/ghg_data/ghg_data_unfccc/ghg_profiles/items/4625.php, accessed in 04.01.2011.

Fig. 2. Total GHG emissions, without and with LULUCF

Climate change. Information about the amount of greenhouse gas emissions has a strategic importance in designing mitigation plans. Greenhouse gases (GHG) consist of carbon dioxide, methane, nitrous oxide and freons. Looking to the time series, we found that there is a falling trend of emissions, with two periods in which the annual rates are higher: at the beginning (1989-1991) and in the middle (1996-1999) of the 1989-2008 interval (fig. 2).

The structure of emissions by type of greenhouse gas is presented in table 1. Carbon dioxide is, for Romania, the most important GHG in the 1989-2008 period, with almost 72% of the total GHG emissions. Further significant emissions are recorded for methane (17.36%) and nitrous oxide (10.58%). Carbon dioxide and methane recorded a slight increase, while nitrous oxide and some freons are falling. This change in structure could be explained by the reduction of fertilizer

use in agriculture (the main source of nitrous oxide) and the early implementation of Montreal Protocol's provisions.

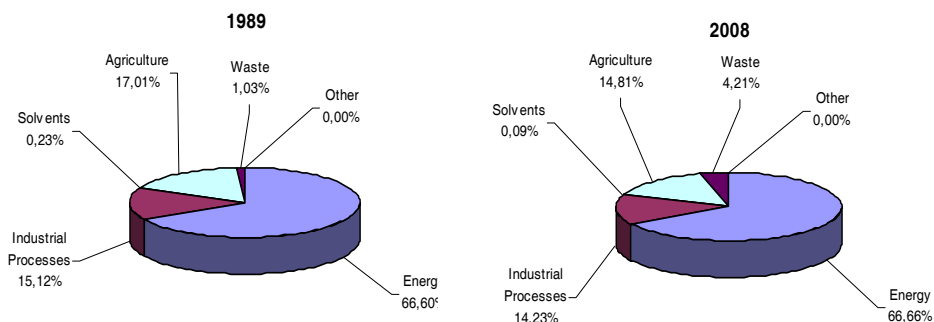
Table 1

GHG emission's structure for the 1989-2008 period

GHGs	1989 %	2008 %	1989-2008 average %
Carbon dioxide	70.36	71.07	71.29
Methane	16.90	17.61	17.36
Nitrous oxide	11.53	10.86	10.58
Hydrofluoro carbons	0.00	0.0141	0.0034
Perfluoro-carbons	1.22	0.43	0.77
Hexafluoro-sulfurs	0.00	0.01119	0.0076

Source: National Emission Inventory, 2010

The structure of emissions by type of sources reveals that the most important contributor is the energy sector, with 66.66%, followed by agriculture (14.81%). This structure is very similar at the beginning and at the end of the period, the slight differences being disputed by industrial processes, agriculture, and waste (fig. 3).



Source: UNFCCC, GHG emission profiles for Annex I Parties and major groups, http://unfccc.int/ghg_data/ghg_data_unfccc/ghg_profiles/items/4625.php, accessed in 04.01.2011.

Fig. 2. Structure of GHG emissions (without and with LULUCF) by sources

Policy framework for air quality protection and climate change mitigation

In October 2004, the environmental minister elaborated the *National Strategy for Air Protection*, assuming the following goals:

- maintaining air quality within areas where the current legal norms are respected;
- improving air quality in areas where excess of the current legal norms are recorded;

- adopting measures needed for the minimization and, eventually, elimination of the negative environmental impact and of the cross-border impact;
- accomplishing all the commitments assumed by Romania within international agreements and treaties.

By the H.G. no. 586/2004 the National System for the Integrated Assessment and Management of Air Quality was established, which comprises the National network of air quality monitoring and the National system of pollutant emissions inventory. Information provided by the two sub-systems is integrated by the Center for Air Quality Assessment.

Within the National System for the Integrated Assessment and Management of Air Quality there are established eleven crowds that need air quality evaluation and management (Bucharest, Craiova, Pitești, Ploiești, Constanța, Brăila-Galați, Iași, Baia Mare, Cluj Napoca, Timișoara, and Brașov) and eight areas for air quality management.

As long as international commitments are regarded, Romania made a commitment to reduce GHG emissions with 8% in the first engagement period (2008-2012) compared with the base year (1989) by ratifying the Kyoto Protocol. Meanwhile the Law no. 271/2003 ratified the Convention on cross-border air pollution on long distances and the three successive protocols referring to acidification, eutrophication, and troposphere ozone.

Until 2017, it should be recorded major reductions of sulphur dioxide, nitrogen oxide, and particulate matter emissions coming from LBI. This means a fourfold reduction from the intermediary ceiling from 2007 (540 000 tones) to the 2013 target (148 000 tones). Romania obtained transition periods by pollutant categories (sulphur dioxide, nitrogen oxides, and particulate matter) comprised between 1 and 6 years for 77 LBI (until 2013), while for nitrogen oxides coming from 6 LBI the transition period is an additional 1-2 years (2016-2017).

Financing possibilities for emission reduction

In 2007-2013 financial means provided by the structural and cohesion funds of the European Union could be used for emission reduction. These funds are allocated through the so called operational programs. The emission reduction could be financed through the Environmental Operational Program and the Economic Competitiveness Operational Program. Table 2 presents a summary picture of the financing opportunities considering the programs' pillars, financial allocations, and eligible actions.

Table 2

Financing possibilities through structural and cohesion funds

Pillar/OP	Goals	Financial allocation (euro)	Eligible projects
<p>Pillar 3: pollution reduction and minimization of climate change effects through the rehabilitation of urban heating systems, envisaging to reach the energy efficiency targets in identified priority areas / Environmental Operational Program</p>	<p>Reducing climate change effects and pollutant emissions coming from urban heating systems in cities that are most affected by pollution</p> <p>Improving the minimum concentration of pollutants in envisaged settlements</p> <p>Improving public health in affected settlements</p>	<p>458 million, out of which 229.268.644 Cohesion Fund 229.268.644 National co-financing</p>	<p>BAT (best available technologies) introduction for reducing sulphur dioxide, nitrogen oxide, and particulate matter emissions.</p> <p>Rehabilitation of boilers and turbines, including replacement where this is justifiable.</p> <p>Introduction of improved measuring system.</p> <p>Rehabilitation of non-compliant slag and ash deposits.</p> <p>Rehabilitation of hot water and heat distribution networks (including new network designs if this is justified by cost-efficiency ratios).</p> <p>Technical assistance for project preparation, elaboration of option studies, management, supervision of works and advertising, including public awareness campaigns.</p>
<p>Pillar 4: Improving energy efficiency and sustainable development of the sector/ Increasing Competitiveness Operational program</p>	<p>Reducing primary energy intensity for reaching national target (of 40% until 2015, compared with 2001) and reducing pollution degree of energy sector</p>	<p>Public co-financing (European Regional Development and state budget allocations) and private co-financing (own sources of the applicant,</p>	<p>Installations/equipments specific for industry for obtaining a specific energy economy, based on the energy balance (e.g. air compressors, pumps, ventilation equipments, frequency convertors, integrated systems of energy consumption management).</p> <p>Co-generation units with high energy efficiency for</p>

Pillar/OP	Goals	Financial allocation (euro)	Eligible projects
		bank loans etc.)	industrial plants (modernization of co-generation plants or building new ones). Buildings related to the industrial process that is the subject of the project.

Source: Environmental Operational Program, Competitiveness Operational Program

The distinction among interventions within Environmental OP and Economic Competitiveness Increase OP is based on the pattern of provided services, the main type of infrastructure and type of beneficiaries.

For the Environmental OP beneficiaries of Pillar 3 would be local public authorities from the selected municipalities or, in certain cases, the operators of urban heating services. Additional financing sources for municipal heating systems will be attracted through external loans and private-public partnerships (PPP).

Table 3

Current state aid schemes

Crt. no.	Support/Aid scheme	Period
1	Support bonus type for promoting co-generation of high efficiency	2010-2013
2	Regional aid regarding valuation of RES	2008-2013
3	Horizontal aid for regional sustainable development and emission reduction – Pillar 4: Competitiveness OP	2008-2013
4	Project regarding the promotion of clean technologies and energy production from RES	2007-2011
5	Regional aid for promoting clean technologies and energy production from RES	2007-2011
6	Modification of regional aid regarding the promotion of clean technologies and energy production from RES	2007-2011
7	Regional aid for emission reduction of sulphur dioxide, nitrogen oxides, particulate matter, lead, carbon monoxide, benzene, and volatile organic compounds	2007-2011

Source: Competition Council, 2010

For the Economic Competitiveness Increase OP economic actors and public authorities could obtain grants with a maximal value comprised between 10 million euro and 35 million euro, in accordance with the envisaged operation. Thus, projects regarding the procurement by the economic agents of installations and equipments for energy savings in production processes, and also projects of companies and local authorities envisaging the modernization and establishment of

new power producing and thermal energy capacities through the valuation of renewable energy sources (RES) (solar energy, wind energy, geo-thermal energy, bio-fuels or hydro-power of small size) could obtain non-reimbursable financing up to 10 million euro.

Companies that apply projects envisaging investments in sulphur, nitrogen removal installations and filters could receive up to 25 million euro, while projects that target interconnection of the national power and natural gas grid with the European ones could obtain grants up to 35 million euro.

Another financing source for projects with impact on emission reductions is the state aid scheme. A brief review of these opportunities is presented in table 3. These are managed by the Council of Competition which is the national contact point in the relation among European Commission, Romanian authorities, and beneficiaries.

Conclusions

There are a large variety of environmental issues that should be approached with urgency by any government. Meanwhile, the financial means of implementing effective measures are limited, and usually lower than the needs of each solution. Thus, the question of prioritization is of crucial importance. Air quality ranks very well after such processes, since air pollution is the most difficult to avoid by both, humans and ecosystems. Considering this reason, the paper examined the patterns of air pollution in Romania and how the emission reduction could be supported with financial resources.

The social-economic changes occurring in Romania in 1989 had a powerful impact on emission patterns. Thus, current emissions are half of the ones recorded before these changes for sulphur dioxide, nitrogen oxides, particulate matters, and GHGs. Meanwhile, the structure of emissions by source did not change much, as long as GHGs are regarded. Although these patterns could be considered favourable, they are the results of a contracting economy. Further, the European standards are still not met, especially in terms of energy efficiency, sector which is the main emission source.

Browsing among the available governmental funds for emission reductions, we found plenty of opportunities for a wide range of beneficiaries – private companies, public authorities, operators of municipal utilities. European funds – the Cohesion Fund, the Structural Funds – combined with national state aid schemes provide a good support for actions that result in emission reductions, such as acquiring new technologies, rehabilitation of distribution systems, power production based on RES, modernization of boilers and turbines, public awareness campaigns.

Future research should consider a more detailed approach, by company or sector type in order to provide readily available information for decision makers. It should also considered assessment studies that could report on the effectiveness of financial support and comparisons in terms of outcomes.

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BOOK REVIEWS

DAVID WELLS

Errornomics – why mainstream economics will always be a dangerously ideological pseudo-science & what can be done about it with some suggestions for a better, more scientific model

David Wells asserts the moral right to be identified as the author of *Errornomics* and this pamphlet based on it.

Errornomics is a pre-book (by an analogy with academic pre-papers) of 214 pp. It is described on the cover as an **author's sketch** because it is a record of work-in-progress. The most important arguments are laid out in detail; the less important are just sketched. It is based on the books, *Power and Economics: the Failure of Ideology*, [Wells 2001]; *The End of Civilisation: Science, Ideology and Irrationality*, [Wells 2003], both published by Rain Press, but develops their concepts much further and in new directions.

Mainstream orthodox economic [MOE] ideology

The claim of mainstream orthodox economics [MOE] to have no ideology is in itself ideological. On the historical evidence that MOE is ideological and that its ideology is liberal *laissez faire*, based on these ideological themes and theses:

- A. Economics can and must be separated from politics.
- B. Economics can and must be based on mathematics.
- C. By relying only on mathematics, power is either excluded, or admitted only in a form which can be calculated.
- D. MOE claims to be positive not normative, thus excluding morality and power.
- E. Economic Man is an atomic self-interested individual.
- F. Individual rationality is based only on utility maximisation.
- G. The ideal economic state is one of equilibrium.
- H. The MOE definition of economics as the 'allocation of scarce resources'.

Scientific method

In order to support this ideology while avoiding the appearance of being ideological, MOE has to have a defective scientific method. According to a typical definition, any sound scientific model incorporates all the essential features of the situation, while it deletes all the inessential. This leaves open the question: what is essential and what is inessential? The MOE response is to omit important features

whose incorporation would undermine their ideology, while incorporating features that support it.

These include: using over-simplified and over-abstract models; failing to distinguish between theories and simulations (as illustrated by Friedman's claim that the truth of a model's assumptions does not matter); making models mathematically too simple, so they are more *tractable* but less realistic; (a special but widespread example is the use of simple, unrealistic static models rather than more realistic dynamic models); playing down side-effects; and emphasising the effects on aggregates rather than on the individuals involved. The last two practices both involve normative judgements, and hence illustrate how MOE is normative, even when it claims to be positive.

A history of increasing ideology: with a timeline

The ideology of MOE did not spring fully-formed from the earth, but has developed over two centuries, becoming more ideological with time. Thus, Adam Smith was not strongly ideological, his *laissez faire* claims being balanced by contrary claims, (the 'Adam Smith problem'); the 'marginal revolution' moved towards greater ideological content; Pareto's criterion was another ideological step, as was the increased use of mathematics in economics after WW2; and so on.

There have been moves away from ideology – some aspects of Marshall, the works of Keynes and Joan Robinson, for example – but these have failed so far to stop the forward march of ideology, recently exemplified by rational expectations theory, the efficient market hypothesis, and the 'representative agent' in macroeconomics. The recent work on behavioural economics has started to undermine several ideological MOE assumptions and will, we must hope, have a substantial long-term effect.

The book includes an ideological timeline, examining the work of notable economists from Adam Smith and Ricardo onwards, to document the historical development of MOE ideology and its effects on MOE theory.

Themes

DMU and ITU

The theme of *decreasing (diminishing) marginal utility* [DMU] is crucial in MOE. It is closely related to ideological themes B, C, F and G and is naturally associated with ideas of equilibrium, negative feedback, continuity and absence of conflict. However, there is a 'dual' concept, labelled here, *increasing threshold utility* [ITU] which in my submission is equally important but which has been omitted from MOE because it is linked to disequilibrium, positive feedback, discontinuity and potential conflict.

In an ITU event, the demands on an economic agent suddenly increase greatly, and so push them towards a metaphorical cliff. Action becomes imperative but is costly, maybe exceptionally costly. The agent loses power, and control of the

situation, and so may be easily exploited. If the threshold is passed, assets are lost, by the agent and maybe others; the agent cannot return to the former state past the discontinuity; and if many agents experience ITU events, political power is required to handle the situation which can no longer be regarded as purely economic.

An example would be a man who has a loan of £10,000 which is suddenly called in. He has difficulty in raising the money, and so approaches a dangerous threshold; if he fails to repay the loan, he may become bankrupt, or his business may fail, and so workers lose their jobs – all examples of disequilibrium and discontinuity.

Unemployment is a serious event in any economy and one that MOE is least able to handle well because it lacks any concept of ITU, discontinuity, etc. Closely related is ‘creative destruction’, linked to ITU and volatility, and also badly handled by MOE.

ITU thresholds occur everywhere in the real economy, closely linked to volatility, and economic agents who do cross them (unemployment is just an example) suffer from discontinuities, loss of power, and loss of assets (often leading to poverty) with grave social and political consequences thereby forcing political factors – and also moral factors – back into economics.

Perfect competition and volatility

The concept of ‘perfect competition’ fits ideological themes B, C and G especially C. Ironically, however, it can be interpreted as neither competitive (because the agents do nothing to compete *actively* with other agents) nor ‘perfect’ since the more closely markets are to this ‘perfection’, (for example, commodities and farmers’ produce) the more volatile they are. This volatility is costly to everyone involved, not least because it increases the costs of rational planning, and the chances of ITU events occurring.

It can be and is handled in practice by the use of ancillary markets (for futures and derivatives) or by government intervention – creating the irony that so-called ‘perfect markets’ are so imperfect that they require additional markets or government action – against the *laissez faire* ideological imperative – to handle their failures.

Shops, middleman, supply chains: storage and non-clearing markets

Standard MOE theory links prices to supply and demand via the concept of clearing markets. In a market which clears at time t , aggregate supply and demand curves determine the clearing price, at that time t . This leads to the objection that supply and demand and price cannot, logically, be determined at the same time: this model therefore must be an oversimplification (and an example of mathematical tractability purchased at the cost of serious loss of scientific realism).

However, putting that objection on one side, most goods are not brought to a market where they are cleared at a particular time, but rather enter a supply chain, possibly pass through the hands of one or more middlemen (who are neither producers nor consumers) before being stored – for example, on the shelves of a shop – before they are finally purchased at some future time t^* .

Only some goods are sold in a market which clears at a particular time – and all such markets are liable to costly volatility, as we have noted. Hence the irony that shops, perhaps the most widespread and universal, both historically and geographically, of all economic institutions, do not feature in MOE textbooks or MOE theory.

The phenomenon of supply chains, middleman and shops illustrate how most goods are not sold in clearing-markets, and their markets never do *statically* clear: goods, rather, enter a supply chain and there is a *dynamic* balance as they move down the chain until eventually (usually, not always) they are sold.

Storage must be a profoundly important phenomenon in any scientific economics, but it is generally absent from MOE because the possibility of storage undermines all MOE's most basic market models and ideological assumptions.

Storage and the time delays that it allows, allow sellers to wait for a 'right' customer; for buyers to, in effect, search geographically at little cost; gives a degree of power to the seller (allowing the shopkeeper a role in pricing, for example); and it promotes *real* competition. Storage also reduces the volatility of prices, allowing both sellers and buyers *to plan more rationally* and therefore more effectively, and so on.

General Equilibrium Theory [GET]

General Equilibrium Theory, like the concept of perfect competition to which it is so closely related, supports ideological themes B, C and G. However, since perfectly competitive markets are so hard to find in actual economies, it is highly irrational and unscientific to construct a general theory in which *every* market is taken as 'perfect'.

Moreover, because perfectly competitive markets are so volatile, the same volatility will appear in GET models, and has in fact been identified (for example, by Debreu). Therefore, while *static* equilibria may exist for certain GET models, (under numerous very restrictive and unrealistic conditions) *dynamic* GET models will display volatile behaviour that undermines any reasonable dynamic interpretation of 'equilibrium'.

In turn, volatility in dynamic GET models will generate ITU phenomena, leading to disequilibrium and discontinuity and *undermining the original ideological basis* for constructing GET theory. I conclude that GET falls to an ITU *reductio ad absurdam*.

Volatility, storage and uncertainty

MOE is almost entirely concerned with probabilistic risk, not with Knightian-Keynsian uncertainty. This perfectly suits MOE ideological insistence that economics must be mathematical and apolitical: risk can be calculated via probability, uncertainty cannot be so calculated, and the latter fact – compare ITU phenomena – forces politics back into economics whenever uncertainty is acknowledged. Volatility is costly at best and at worst generates ITU phenomena which are even more damaging and costly. Both aspects, the cost and the ITU threat are linked to the uncertainty volatility creates.

Storage is a major defence against volatility and ITU. (An example: wealth as a type of storage and a defence against both.) The existence of storage, and its ubiquity, undermines ideological MOE models of clearing markets, price formation, etc.

Stock markets

The efficient market hypothesis [EMH] is implicitly, sometimes explicitly, supported by the fact that stock markets are *approximately* random. This argument is false and amounts to the basic logical error, the belief that, ‘If X implies Y, and Y, then X.’

If players on the stock market behave very rationally, it will go on a random walk, but it will also do so if they behave totally irrationally and if they behave in a combination of rational and irrational. Therefore, the ‘roughly’ random movement of stocks proves nothing. To determine what is really happening, actual investors must be examined. The conclusion is that players are often irrational, not least since in trying rationally to gain information they will link to other agents and create positive feedback effects.

Likewise, the rational expectations model is contrary to facts. Both this and the EMH hypotheses support several of the MOE ideological imperatives, without having any scientific virtue – as does Friedman's claim that speculation must be stabilising. On the contrary, it can be rational for a sufficiently wealthy player to follow an ‘observed’ trend towards values that he judges to be extreme.

International trade, side-effects and individuals

Ricardo's original Comparative Advantage argument is totally static and ignores any dynamic factors. It is closely related to all the MOE ideological themes A to F.

Taking the Friedman analogy of the lawyer who can type letters & his secretary who knows some law, we may say that Friedman's own conclusion that the lawyer should stick to the law (etc.) ignores the future career paths of both economic agents. In a realistic, scientific and dynamic perspective Ricardo's original CA conclusion is about maximising production when all other factors are ignored. In practice, those factors – especially the personal states, present and

future, of the economic agents involved – will inevitably introduce social, political and moral aspects & may well dominate the Ricardian conclusion, and also the more ‘sophisticated’ conclusions drawn from it.

Double markets, labour and wages

In standard MOE textbook models of employment, the employer takes on workers, taking into account the phenomenon of diminishing marginal productivity of labour [DMPL] until the employer cannot benefit by taking on one extra worker. This fits all ideological factors from A to F, but is also unrealistic because it ignores the technical constraints almost invariably present. Thus, a new factory requires 24 machinists, so the firm employs 24 machinists, no more and no less.

It is also unrealistic because it assumes that employees work for wages doing work which can be quantified. So it is not a theory of the salaries paid to higher-level staff and it says nothing about the remuneration of top-level executives, for example.

Finally, it is unrealistic because workers have minds of their own. There are double markets for labour, therefore: as the firm is choosing which workers to offer work to, the workers are, if they are not in an ITU situation, choosing which firm to work for. The labour market is therefore very far from being perfect, with the same qualification that ITU is absent: sufficiently needy workers may indeed be price takers.

Notice that while the phenomenon of the backward-bending supply curve for labour is recognised – as wages rise, so less work may be offered – the phenomenon of the *forward-bending supply curve* is not: as prices drop, yet more and more work may be offered to meet a subsistence standard of living – subsistence being a continuous ITU state in which the individual and his family are always close to destitution.

The basic MOE model of employment is important because it supports so very many ideological claims, in particular the idea that employment and unemployment, in so far as they exist at all, are logically unrelated to any moral, social or political factors, and so remuneration cannot have any moral dimension.

Poverty, welfare, volatility and ITU

Volatility and ITU events are a major creator of poverty and wealth. In MOE theory, unemployment is a passing temporary state, and poverty is not important. This lack of focus on two grave problems is forced by the ideological factors listed earlier.

Real world welfare systems implicitly recognise that the phenomenon of ITU is real and they accept, also implicitly, that money does have a decreasing marginal utility in many circumstances. Ironically the so-called ‘welfare’ theorems bring politics and economics together again: it is markets closest to ‘perfect competition’ that generate the volatility which is one major cause of the need for

welfare provision. Welfare pay, especially unemployment benefits, can be interpreted as protection against volatility which is too great for individual economic agents to handle.

The Pareto criterion and the subsequent ‘welfare’ and ‘compensation’ theorems also ignore the vast costs of compensation; the bureaucracies required to implement the compensation; the senses of justice and ‘fairness’ that behavioural economists have identified as recognised everywhere; the political power – plausibly that of a powerful dictator – required to force the implementation of compensation; and the long-lasting political turmoil likely to follow; and so on. They are, in other words, totally unrealistic and unscientific, a product of ideological imperatives out of touch with the real world.

Provisional conclusions

- The positive ideological assumptions of MOE are all falsified by experience and the existence of ITU phenomena, plus volatility, storage, supply chains and middlemen.

- Economics cannot be focused only on equilibrium but must take disequilibrium and positive feedback, discontinuities and potential conflict into account, including ITU.

- Economics cannot be separated from politics. Economics cannot be based only on mathematics but must also involve qualitative judgements. (MO economic theory is already normative: for example, via its focus on aggregates not individuals, and its tendency to ignore almost all side-effects, a limited number of externalities apart.)

- The theme of ‘power’ cannot be excluded from a scientific economics.

Copies of *Erronomics* may be ordered from the following address: 27 Cedar Lodge, Exeter Road, London NW2 3UL, United Kingdom

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DAVID MARSH

The EURO – The Politics of the New Global Currency

Yale University Press, New Haven and London, 2009

The EURO – The Politics of the New Global Currency, written by David Marsh and published in both English and German, is a very thorough chronicle of the birth of the European common currency, from its early days, almost half a century before, and of its development until nowadays and even beyond, as it includes considerations on short term dynamics. David Marsh describes the story of the euro in a very complex manner, through a detailed, comprehensive and up to date analysis of the gathered data, making a substantial contribution to understanding the linkages between the political, historical, economic, financial, monetary, strategic and personal determinants of the evolution of the single currency.

In this well documented book, the author manages to achieve an authentic historical record, as he skilfully blends the official data with information gathered from relevant documents and unpublished material from international archives and with statements of important characters that influenced Europe's destiny, official representatives, politicians, central bankers, diplomats, that he interviewed during his journalistic career and that he extensively has drawn upon in writing this book. Nevertheless he manages to keep a neutral style in reporting the information and certain precision in his writing, avoiding the trap of taking for accurate the official statements and overcoming challenges such as the usual thirty year rule of making available official data.

The author is chairman of London and Oxford Group, a strategic adviser and investment banker with a journalistic career at The Financial Times and Reuters. Being well acquainted with economic notions such as inflation, interest rates, economic convergence, public debt and budgetary positions, he doesn't hesitate to substantiate his findings with very thorough and coherent economic explanations.

Within the 8 chapters of the book, *Blood and Gold, At the Epicenter, Tyranny of the Mark, The Coming Trial, Shock Waves, Europe's Destiny, Coping with Imbalance and The Reckoning*, the reader is set of on a voyage of discovery, as he is gradually acquainted with inside stories from the inception and the development of the euro, the new currency that was meant to replace the previous ones, to restore peace, win supremacy and be the symbol and catalyst of a new era.

In the continuous attempt of restoring the European equilibrium, the strong currency that "swept away ancient currencies like the French franc, the Dutch guilder, the Greek drachma and newer but no less symbolically potent ones like the German mark and the Italian lira", the euro was seen as a solution of overcoming the friction between the three powerful European players. Meant to help avoid inflation, it was considered a way of dealing with the American irresponsibility in what concerns fiscal matters and other specific economic policies issues that have

global consequences, being also expected to lower the continuously increasing influence of Germany.

The European Monetary Union was not the first experiment of this kind, as “the dream of a common unit of money” that will “invigorate and unify disparate peoples, and imbue national economies with wealth and dynamism, has (...) captured attention throughout centuries of political thought”. In the first chapter of the book numerous attempts of introducing a regional uniform currency, starting from the Gold Standard to the Bretton Woods Agreement, are explained with historical and economic reasons, approaching issues as the connection between common currency, political unions, global dominance, cooperation and war. It is generally known that the purpose of forming a monetary union goes beyond the economic benefits, while the political motivation is heavily weighted; the book gives shape and makes light to a certain degree between the different scenarios of real political objectives, actions and intrigues, which characterize the European common currency.

At the epicenter of the construction of the European monetary landscape was Germany; the revaluation of the D-mark was the starting point of political actions towards the EMU. The D-mark experience became the transition to the European single currency; the transition is “continuing still; its shape, purpose and ultimate destinations are matter of conjuncture and controversy”. The role of France cannot be left aside, as the story of the euro was heavily influenced by the relationship and the continuous battle for power between the two biggest economies in the EMU, making up half of its GDP (France and Germany), which also played the most important roles in the process of European integration. Although there were moments when the French left the impression that they understood their role in the center of the European money stage and the fact that being Germany’s follower is the best strategic decision, attempts of minimizing the German authority still occur. Another important player, the UK, opposed the project at the beginning and reconsidered during the process; however, it is still not willing to pass to the “one-size-fits-all” monetary policy. Many of the strategic decisions and actions are described and explained within this book. Having as a primarily focus the Franco-German currency antagonism, and the battle for power, the author also approaches issues as: the various imbalances between member countries – of growth, views and types of actions, which unlike the differences that make the European landscape unique, are destructive, deepening the discrepancies and missing targets; the importance of the correct timing of the EU decisions-taking into consideration the position on the international landscape, national desiderates, the necessity of action and the electorate’s preferences; the role of ECB, beyond its official status; Great Britain’s entry into the euro zone. When approaching the scenarios of a country’s exit from the euro area, David Marsh draws attention on an important issue: “the first step to quit EMU could come from a stronger country such as Germany, perturbed by the lack of ‘stability culture’ elsewhere in EMU and worried about the potential danger of being outvoted in the ECB”. Reading this book, one may find the insights to the election of the new head of ECB, as the eight year non renewable term ends this year. David Marsh’s

approach gives a clear description of the stakes involved, the candidates, their support group and a close hint as to who the successor shall be.

This book is recommended for everyone interested in understanding the concept of the euro zone, the real objectives and the characters that influenced the destiny of the European space and monetary union. It gives a clear picture of the battle behind closed doors, offering insights to the political games and hints on the real stakes aimed to be achieved through the single currency. It dauntlessly describes the fight for authority inside a space of solidarity, the real battle of currencies, of power and dominance.

Although very interesting, coherent and logical in explanation, is not a very easy to read book, being very dense in information, most of it new to the general public. It remains however an accessible book for a thorough reader and is enlightening for everyone that wants to understand the real politics behind the common monetary policy.

In this book, focused more on the past events, one will not find the answer to questions like what will happen to the euro zone, or whether the euro was a success or not (it might also be too soon to say). Although the intent of keeping a neutral attitude is journalistically honourable, enclosing the subjective opinion of the author after the official statements of representatives, diplomats and even the general public (opinion polls) on the matter, would have given an interesting personal touch, adding significant value to the book.

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