The Rhythm of Common Sense Seemless

"Here you have to run as fast as you can just to remain still.
If you wish to get somewhere you have to run at least twice as fast."
Lewis Carroll

Parting moral guidelines from the reasoning of Economics was not just a path of objectifying but also of clouding its judgments of value. The crossroad was in the struggle of economics of evolving toward the status of science, as it is represented by physics. Economics has altered human nature to the point of altering its essence, for it to befit only rational regularities.

Once power was associated with wealth, Economics had to defy human nature as well as nature in general, by submitting them to the rules of efficiency. Starting with the first industrial revolution, Economics – having become a science of wealth as a fundament of power – has created models of combining the factors with the maximizing function of the output. Especially in the last century, Economics was centered around the idea of growth, in which the quantitative determinants were the norm.

The problem at hand is whether Economics has taken an epistemic path in accordance with its object. Certainly, the correct answer is not found in the explicative performances of Economics in the last few centuries; not even in the quantitative measure of these performances. Though strange, this hypothesis is meant to beg that the answer is searched beyond the path of efficiency taken by Economics, especially in its growth-theory influenced flavor. The argument relates directly to the rule of common sense as a distinction of human nature and as a basis for behaviors specific to natural systems.

There is no doubt that the economy bears a serious component of an artificial type, itself producing artificiality even. Between these guidelines, only by excluding man from the equation could we be able to judge by the rules of the artificial. Essentially, what is created by man stays in resonance with natural laws, in their expressed form specific to human nature. To create differently than by the rules of equilibrium specific to nature seems a challenge – often undertaken by man, but never proven to be a long lasting endeavour. Creating more and more, in an economic sense – producing more and more (meaning to break with the equilibrium between the needs of man and the resources of nature – including those of human nature), presents an apocalyptic risk. Both the rhythms of life and the equilibriums of human nature are fatally contradicted.

Economics was wrong when it imposed the "plenty" as a standard. Nature proves that when trees, for example, face the prospect of not surviving due to height issues relating to the access to light, all of them will ignore the rule of costs in order to be taller. It hasn't been any different since the competition for growth was imposed as a model, with every country doing enormous spending – not necessarily reflected in statistics such as the stress of people for instance – in order to achieve ever greater rates of GNP growth.

In a perverted, somewhat dangerous way for the health of humans, the competition of natural selection at the level of species was translated to the competition for economic supremacy between countries.

The enormous loss - at the level of comfort, brought by evolution at an accelerated rhythm and contradicting the rhythm of natural evolution is never calculated. Economics is not even preoccupied with calculating the huge costs of sustaining a process unfitting to human nature. The strange part is that it cannot be seen that the propensity for growth is stimulated by translating into Economics the procedures for obtaining power used by peoples throughout history. Whoever managed to externalize in time most of the costs of growth also has the power to keep on growing. And it does it at rhythms meant to suffocate any capacity held by those who would opt for accelerated growth and would accept enormous costs drawn either on the population, or on nature. Those who were the first to initiate growth hold a natural monopoly over the externalities.

As long as the option for rapid growth is only possible if we admit the explosion of costs, in one direction or the other, the religion of economic growth has the role of concentrating power, of ossifying the hierarchical structure of the world.

Rightly speaking, growth is the process invented in the name of the idea of competition in order to defy the role of the man who is capable of reaching rational agreements for a convenient level of comfort.

As evolutionism teaches us, just as in life, in a head-on competition the rate of success is different for the parties only if one of them cheats. The race for economic growth cannot go on indefinitely because resources are limited. Furthermore, when economies don't get to grow at the same pace but in a rather more normal, durable rhythm, the economic function of the countries is not reached.

Economic behavior cannot differ from the behavior of nature: balanced, with no shocks, dedicated to the middle path. Economics is meant to insure the normal guidelines for economic behavior. And these cannot be set too far away from the common sense of nature.

Marin Dinu

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The Relationship between Economic Growth and Money Laundering – a Linear Regression Model

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Abstract. *This study provides an overview of the relationship between economic growth and money laundering modeled by a least squares function. The report analyzes statistically data collected from USA, Russia, Romania and other eleven European countries, rendering a linear regression model. The study illustrates that 23.7% of the total variance in the regressand (level of money laundering) is "explained" by the linear regression model. In our opinion, this model will provide critical auxiliary judgment and decision support for anti-money laundering service systems.*

Keywords: money laundering; economic growth; GDP; money laundering estimates; microeconomic approach.

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JEL Codes: G18, H28, O17.
REL Codes: 8E, 8K.

Survey methodology

To determine the impact of money laundering on economic growth we have rendered a linear regression model. The model provides an estimation through technical fitting-quantitative approximation of the relationship between money laundering, expressed as percentage of GDP, and economic growth, expressed as real GDP growth rate.

Economic growth of a country was expressed by the rate of real GDP growth. Gross Domestic Product (GDP) is a measure of economic activity, defined as the total value of goods and services produced within an economy, less the value of goods used in the creation. Calculation of annual growth rate of GDP volume is designed to allow comparisons of the dynamics of economic development, both in time and between countries of different sizes. To measure the GDP rate of growth in terms of volume, GDP in current prices is valued in the prices of the previous year, achieving a chain series which is influenced by price movement. Changes in the population and birth rate/mortality are not taken into account. Eurostat, The Statistical Office of the European Communities, data were used(1), the reference year being 2008.

The real GDP growth rate

Table 1

Country	Real GDP growth rate (%)
UK	0.70
Russia	6.00
Romania	7.10
Greece	2.90
Swiss Confederation	1.60
Cyprus	3.70
Bulgaria	6.00
Austria	1.80
Luxembourg	0.90
Germany	1.30
Netherlands	2.10
France	0.40
Spain	1.20
US	1.10

This range of data represents the independent variable of the econometric model presented in the second part of this article.

To determine the correlation between economic growth and money laundering, we proposed a model that assess the level of money laundering before the initial placement. The model quantifies, in a microeconomic approach, the volume of dirty money generated by an economy having the following data entries:

- nature and level of crime in a given country (expressed as total number of crimes reported per type of criminal action);
- estimated average of dirty money generated by each type of crime;
- national wealth.

As a starting point we used the AUSTRAC report, estimating the profit generated by each type of crime in Australia. Using estimates from this report and the comprehensive database of the *United Nations Center for International Crime Prevention,* including records of annual crime levels in more than 100 countries, we went on to extend these results to the US, Bulgaria, Russia, Romania, Switzerland, Cyprus, Greece, Slovakia, UK, Austria, Luxembourg, Germany, Holland, France and Spain. By taking into account the most profitable 11 *money laundering predicate* offenses and multiplying the average profit of each of these(2) with the number of crimes recorded for each country(3), we obtained a set of preliminary estimates of the level of dirty money generated by criminal activities for each of the countries above. Estimates were then adjusted based on GDP per capita. By this we assume that the benefits of criminal activities in a country are proportionate to GDP per capita of that country. GDP per capita of Australia is considered as 1.00, the results being adjusted to it.

Results obtained using this model are presented in the following table.

Laundered money/GDP

Table 2

Country	Laundered Money/GDP
UK	1.60
Russia	3.40
Romania	3.10
Greece	1.90
Swiss Confederation	2.10
Cyprus	2.20
Bulgaria	2.90
Austria	1.70
Luxembourg	1.20
Germany	2.20
Netherlands	1.70
France	2.10
Spain	2.80
US	3.90

This set of data represents the dependent variable of the econometric model presented below.

The degree of correlation between economic growth and money laundering – a linear regression model

Using the technique of fitting-approximation, we processed the experimental data obtained to estimate the quantitative relationships between:

- Real GDP growth rate as a measure of economic growth (dependent variable Y)
- Money laundering (explanatory variable X)

The link between the two variables could be predicted with a linear function that takes the form $Y = a + b \times X$[(4)]:

$$Y = 0.014051\ X - 0.00663$$

Apparently surprising, the two variables are positively correlated: an increased level of money laundering leads to a raise in the real GDP growth rate. The intensity of this relationship, as we can isolate it from the model testing, is equally surprising.[(5)]

Regression Statistics

Table 3

Regression Statistics	
Multiple R	0.487353
R Square	0.237513
Adjusted R Square	0.173972
Standard Error	0.020132
Observations	14

The general regression statistics confirm the quality of the model and regression estimates.

Multiple R[(6)] = 0.487353: the correlation exists and is of average intensity.

23.7% of the variation of the real GDP growth rate is explained by the variation of laundered money in an economy.[(7)] This result is significant and may seem surprising given the diversity of factors that influence economic growth: rate of employment, natural resources, capital, innovation, labor productivity, foreign trade, information, educational system, social insurance system, other socio-demographic and cultural factors, access to education, legal policies, religious and psycho-sociological factors, etc. It should be borne in mind, however, that the restricted range of data for which could be calculated the level of money laundering can artificially influence the correlation, as a factor in the increase.

Variance analysis

Table 4

ANOVA

	df	SS	MS	F	Significance F
Regression	1	0.001515	0.001515	3.737967	0.077126756
Residual	12	0.004864	0.000405		
Total	13	0.006379			

Estimated coefficients

Table 5

	Coefficients	Standard Error	t Stat	P-value
Intercept	-0.00663	0.017856	-0.37146	0.716772
Laundred Money/GDP	0.014051	0.007267	1.933382	0.077127

Table 4 includes a panel analysis of associated regression estimates.

The value (Significance F(8) = 0.0771) is smaller than 0.08, therefore it invalidates the null hypothesis, independent variable coefficient can not be 0. This means that the regression model that has been chosen is valid (significant up to 8%).

Based on these data an estimation is given by the method of least squares(9):

The Standard Error(10) is 0.017856 for the estimated a coefficient and 0.007267 for b.(11) Testing of the significant model parameters was performed using the t test(12).

P-value(13) = 0.077127. For the threshold of ignificance α = 0.08 we can reject the hypothesis of nullity (P-value is very close to 0.08 which is enough to rule out the null hypothesis for the significance threshold of 8%). The null hypothesis can not be ruled out for the b coefficient.

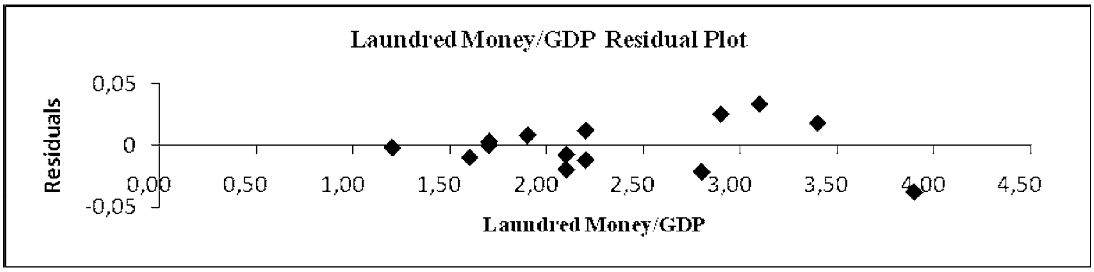

Figure 1. *Residual plot*

The residual plot(14) confirmed that this model is appropriate to estimate the level of money laundering in an economy. The Line Fit Plot also provides a positive answer that verifies the hypothesis of the model quality: Y estimated values do not differ significantly from the real values.

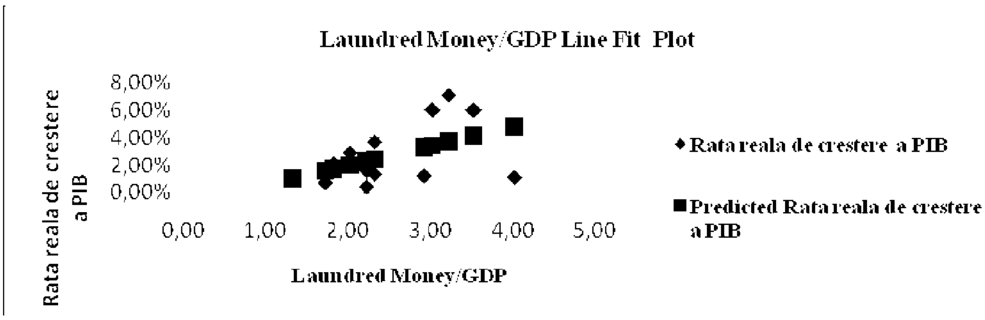

Figure 2. *Line Fit Plot*

On the adjusted values of the model (Table 6) we take in that we attain the best estimates for Austria (item 8 from table 6) and the weakest for the US (14^{th} position in the table).

The Adjusted Model

Table 6

RESIDUAL OUTPUT

Observation	Predicted Real GDP growth rate	Residuals	Standard Residuals
1	0.015848	-0.00885	-0.45744
2	0.041139	0.018861	0.975086
3	0.036924	0.034076	1.7617
4	0.020063	0.008937	0.462021
5	0.022873	-0.00687	-0.35535
6	0.024278	0.012722	0.657693
7	0.034114	0.025886	1.33829
8	0.017253	0.000747	0.038611
9	0.010228	-0.00123	-0.06348
10	0.024278	-0.01128	-0.58309
11	0.017253	0.003747	0.193708
12	0.022873	-0.01887	-0.97574
13	0.032709	-0.02071	-1.07063
14	0.048165	-0.03716	-1.92138

In conclusion, by analyzing the data series we could ascertain, for a significance threshold of 8%, that the volume of laundered money in an economy influences economic growth (measured as real GDP growth rate). Between the two variables there is a positive relationship. Increased volume of laundered money generates short term economic growth.

It is customary to expect that once the money laundering has completed, money is ready to return in the economy, providing funds for investment and consumption and consequently economic growth (Araujo, Moreira, 2005, Masciandaro, 1999). However, most theories state that by not fighting against money laundering we leave more funds available for criminals to be reinvested in illegal activities. Some of these theories have not yet considered the fact that in order to "invest" in criminal activity money laundering is not necessarily required. The dirty money can very well be used for this purpose. Forcing this reasoning we can consider that money laundering, up to a point, even represents funds that are redrawn from the criminal activity.

The fight against money laundering can even have perverse effects (Cavalcante, Andrade, 2006). Even if we find fully effective measures to combat money laundering is not difficult to presume that criminal activity will continue to exist. Theories of etiology of modern criminal psychology confirm this (Masciandaro, 1999, 2001). Opting to battle money laundering instead of combating the criminal activity that generated the dirty money can have as a result that offenders can not wash the dirty money and therefore can not use them for legal purposes and are practically compelled to reinvest in the criminal activity.

The econometric model and the reasoning above seem to present the idea that the funds used to fight against money laundering should be reallocated in combating the predicate offences, otherwise we are just preventing the return of money from the underground economy into the real economy. Although short-term logic and data analysis support the conclusion above, long-term effects are different. There is to consider the inhibitory effect of a criminal activity without a profit that can be used lawfully, and a number of other effects that discourage criminal activity.

The model presented may suffer improvements by increasing the quality of the data series by the use of a larger number of predicate offences used in calculating the dependent variable.

Notes

(1) Eurostat is located in Luxembourg. Its task is to provide the European Union with statistics at European level to enable comparisons between countries and regions.

(2) Identified in Australia's case by the AUSTRAC report.

(3) According to the database of the *United Nations Center for International Crime Prevention*.

(4) Model parameters were obtained using the Excel software.

(5) Testing model quality was carried out using dispersion analysis.

(6) Correlation coefficient.

(7) The coefficient of determination R Square 0.23.

(8) Significance F - If value is less than the significance threshold set, then the null hypothesis is rejected in favor of alternative hypothesis.

(9) In the distribution assumptions of the linear model, the calculated values of the coefficients are derived from normal distributions, making possible the statistical tests of the coefficients.

(10) Standard error of the coefficient (standard deviation of the distribution coefficient).

(11) Which means (if errors have a normal distribution) that in 95 cases of one hundred the real factor will be less than 0.017856 away from the estimated one and the actual coefficient for the independent variable in the range 0.014051 plus minus 0.007267 and in two of three cases in a halved interval.

(12) If there had been more variables using t test we could determine which variable had the greatest influence.

(13) The probability of critical bilateral t test with t Stat specified hypotheses.

(14) The band reflects the uniform dispersion of the residue.

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Comparison of Macroeconomic Performance of Selected Asian Countries. An Econometric Analysis of China Economic Growth and Policy Implications

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Abstract. *This paper compares the key macroeconomics indicators for the selected countries: China, Malaysia, Indonesia, Korea, Rep. and India and also makes an econometric analysis for China for the period 1961-2007. These countries are chosen on the basis of comparability of data and time without measurement errors. This study also investigates six hypotheses considering the impact of several key macroeconomic variables such as domestic saving rate, domestic investment rate, and volatility of savings, volatility of inflation, growth rate of exports and growth rate of real GNP. By using suitable statistical and econometric tests, this paper finds that prevailing performance of China depends on its superior rates of domestic saving and exports. Policies are also suggested from the differentials between the economic performances of China and other chosen Asian countries.*

Keywords: China; Asian Countries; macroeconomic indicators.

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JEL Codes: E01, E21, E22.
REL Codes: 3I, 8E, 8M.

Introduction

It is known that rapid economic growth and macroeconomic stability are the main objectives of development policy. Poor developing countries require more growth when compared with the developed ones in order to reach the development of the social and physical infrastructure.

Six important factors were suggested by World Bank inquiry made in 1993 to explain fast growth rate achieved by Asian countries. These factors are: 1. High domestic saving rate, 2. High domestic investment rate, 3. Provision of competitive market, 4. High export share in GNP and growth policies encouraging exports, 5. Canalizing investments to high yielding sectors and adapting new technologies in domestic industries, and 6.High investment on education and training.

The factors above are the major characteristics of Asian countries (China, Malaysia, Indonesia, Korea, Rep. and India) that achieved high growth rates in the former recent years.

Since domestic investment rate is determined by domestic savings, a country's investment level definitely depends on saving rate (Warman, Thirlwall, 1994). Therefore these two factors move in the same direction and affect economic growth positively. While encouraging the firms which produce exportable goods is an advantage in the sense of giving them chance to serve a market of unlimited consumers, however it introduces a strong competition of multinational firms and forces domestic firms to be cost efficient and to increase overall efficiency. There is a huge amount of theoretical and emprical literature argued that there is a positive correlation between economic growth and exports (Feder, 1983, Jeffrey, Warner, 1995, Mankiw et al. 1992, Levine et al., 1992).

The most effective way to increase labor efficiency and the efficiency in overall is to follow and adapt the new technologies developed all over the world and to canalize investments to high yielding sectors. In this context, making high investment on education and training is vital to catch up and practice new technologies on production, transportation and on all other branches of economy. Also provision of competitive market in which price and quality are determined by market forces is a key factor to obtain an outstanding economic development and growth rate.

In this study, six hypotheses will be examined below for Chinese economy regarding the annual data for the period 1961-2007.

H1-Higher domestic saving rate affects growth rate of real GNP, H2-Higher domestic investment rate affects growth rate of real GNP, H3-Higher growth rate of exports affects growth rate of real GNP, H4-Higher volatility of export growth affects growth rate of real GNP, H5-Higher volatility of saving affects growth rate of real GNP, and H6-Higher volatility of inflation rate affects growth rate of real GNP.

The next divisions of the study are devoted to the comparison of key macroeconomic indicators for China and selected Asian countries, methodological structuration, results, conclusions and policy issues.

Comparison of key macroeconomic indicators for China and selected Asian countries

We will analyze the growth performance of China compared to some other Asian developing countries' performance regarding the data of some important economic indicators between 1961 and 2007.

Growth performance of China and chosen Asian countries

Table 1

	1961-1967	1968-1975	1976-1982	1983-1989	1990-1996	1997-2003	2004-2007
China	7.52	9.42	6.85	10.85	10.71	8.57	12.96
Malaysia	5.74	6.71	8.00	5.42	9.57	3.57	4.21
Indonesia	6.21	7.71	7.00	6.28	8.00	1.57	2.62
South Korea	7.12	8.42	7.00	9.42	6.85	4.14	5.23
India	3.60	5.62	6.71	5.52	7.02	6.41	7.23

Source: World Development Indicators Database 2008.

From Table 1, we can see that China has a prevailing growth performance compared with Malaysia, Indonesia, South Korea and India between 1961-2007. The interval between 1976-1982 is the only period in which China has a lower performance relative to other selected countries except India.

Inflation Rate

(Average annual percentage change in consumer price index)

Table 2

	1961-1967	1968-1975	1976-1982	1983-1989	1990-1996	1997-2003	2004-2007
China	-	-	-	14.66	11.71	0.14	1.20
Malaysia	6.21	5.57	5.48	2.14	3.71	2.42	3.21
Indonesia	19.32	18.57	13.42	8.00	8.71	17.00	18.25
South Korea	16.42	15.14	16.28	3.71	6.28	3.71	4.21
India	7.85	6.25	6.12	5.76	6.70	5.40	5.77

Source: World Development Indicators Database 2008.

Since we don't have the data between 1961-1982, we may have a limited but still reliable analyze. China has the lowest inflation rate between 1997-2007 among chosen five countries.

The share of exports in GNP

(Average annual percentage change)

Table 3

	1961-1967	1968-1975	1976-1982	1983-1989	1990-1996	1997-2003	2004-2007
China	1.85	2.57	8.85	13.42	22	20.14	35
Malaysia	39.76	40.57	51.14	58.85	83.28	114	123
Indonesia	17.23	18.42	27.42	27	26.42	36.85	42
South Korea	19.45	20.57	30.57	34.14	28	38.42	46
India	1.92	2.75	9.68	14.02	23.01	22.25	38

Source: World Development Indicators Database 2008.

Table 3 indicates that China has a lower export share in GNP in overall compared to the other given countries.

Investment share of GNP

(In percentage terms)

Table 4

	1961-1967	1968-1975	1976-1982	1983-1989	1990-1996	1997-2003	2004-2007
China	23.21	24.37	25.77	22.67	26.58	28.91	35
Malaysia	12.36	15.69	20.36	20.36	28.04	21.02	24.36
Indonesia	7.56	9.83	12.61	19.05	18.73	12.74	25.23
South Korea	17.56	20.44	29.43	32.39	41.72	34.23	36.21
India	8.26	9.15	10.25	11,56	10.23	8.56	18.98

Source: World Development Indicators Database 2008.

Although the investment share of GNP changes in each time period, China still has a consistent trend on the investment share of GNP since the share of investment in GNP varies between 24% and 35% in the given 45 years time period. Although it is not put in a table, the saving rate of China is also consistent and higher than the concerned countries.

Methodological structuration

Since the annual data of China covering the period of 1961-2007 are used, the Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) unit root tests are employed in order to test the integration level and the possible co-integration among the variables (Dickey, Fuller, 1981, Phillips, Perron, 1988). The PP is an alternative test to ADF unit root test and it calculates a residual variance that is robust to auto-correlation. The researcher should always ask himself a question while analyzing whether it is most appropriate to include constant term and trend factor in the unit root process (Enders, 1995). It might be more reasonable to test the existence of a unit root in the series with the most general model. The Akaike Information Criteria (AIC) is used to choose the number of lags in the dependent variable in order to ensure that the errors are white noise. The power of the test and the degrees of freedom might be reduced with the presence of additional estimated parameters. If the researcher fails to reject the null hypothesis of a unit root because of misspecification concerning the deterministic part of the regression, Doldado et al. (1990) advises to use the most general model to test for a unit root when he is faced with the form of unknown data generating process. It is known that the power of the test even goes to zero if the intercept or time trend is inappropriately omitted (Campbell, Perron, 1991). Enders (1995) points out that reduced power can misguide the researcher leading to wrong decision. If the variables are stationary, a linear combination of integrated variables can be accepted as co-integrated variables (Enders, 1995). In order to find any long run relationship between the variables, cointegration between the variables should be tested after the decision of the order of integration. In this paper Johansen trace test is used as the co-integration test. Cheung and Lai (1993) points out that the trace test for co-integration is more robust than the maximum eigen value test. It is known that Johansen trace test decides the number of co-integrating vectors among variables. At least one co-integrating vector should be present for a possible co-integration. Emprical studies have indicated that the presence of non-stationarity in the time series can cause spurious regression results and the conclusions obtained from Granger causality can be invalidated. Toda and Phillips (1993) have mentioned about the necessary methods to deal with Granger causality for the systems of integrated of one. The presence of a co-integrating relation creates the basis of the vector error correction specification. Standard Granger or Sims tests may show invalid casual information with the omission of error correction terms from the tests (Doyle, 2001).

Results

Table 5 presents ADF and PP test results for unit root. It shows that all the variables are integrated of order one and the first differences of lnGNP, lnDomesticSaving, lnDomesticInvestment, lnExport and lnInflation are stationary for this sample in China.

ADF and PP Test for Unit Roots[(1)]

Table 5

Statistics	lnGNP	Lag	lnDomesticSaving	Lag	lnDomesticInvestment	Lag	lnExports	Lag	lnInflation	Lag
Levels										
τ_T (ADF)	-1.46	(0)	-2,53	(1)	-2.04	(3)	-1.35	(0)	-1,56	(0)
τ_μ (ADF)	1.91	(0)	-0.53	(1)	-1.09	(1)	0.47	(0)	1.02	(0)
τ (ADF)	10.40	(0)	2.41	(1)	1.75	(1)	6.06	(0)	3.82	(0)
τ_T (PP)	-1.16	(4)	-2.06	(2)	-1.26	(3)	-1.48	(7)	-0,56	(21)
τ_μ (PP)	4.07	(7)	0.21	(0)	-1.02	(3)	1.64	(37)	4.96	(34)
τ (PP)	11.12	(1)	4.62	(0)	1.96	(4)	12.75	(38)	4.97	(24)
First Difference										
τ_T (ADF)	-5.31*	(3)	-4.28*	(1)	-4.18*	(0)	-7,96*	(0)	-6,31*	(0)
τ_μ (ADF)	-6.88*	(0)	-4.41*	(1)	-4.16*	(0)	-7.51*	(0)	-5.61*	(0)
τ (ADF)	-2.48*	(1)	-2.89*	(0)	-2,54**	(1)	-2,35*	(3)	-2,61*	(1)
τ_T (PP)	-8,82*	(6)	-3,70**	(4)	-4,12**	(2)	-8,81*	(12)	-7.74*	(12)
τ_μ (PP)	-6,85*	(0)	-3,74**	(4)	-4.12*	(2)	-7,33	(5)	-5,61*	(5)
τ (PP)	-2,04*	(3)	-2,81*	(1)	-3,72*	(3)	-4,65*	(2)	-4.48*	(1)

Notes:

τ_T: most general model consisting of drift and trend

τ_μ: model consisting of only drift

τ : model without a drift and trend

*,** and *** show rejection of null hypothesis at the levels of 1%, 5% and 10%.

Eviews 5.1 is used for the tests

[(1)] Ordinary least squares regression results have been analyzed as well in order to decide if there is a positive or negative relationship between the variables concerned.

Cointegration tests with the Johansen (1988) and Johansen & Juselius (1990) approach

Table 6

Variables	Trace statistic	Critical value (5 percent)
(1)lnDomesticSaving and ln GNP		
H_0:r=0	15.05**	15.43
H_0:r $\leq$ 1	0,76	3.74
(2)lnDomesticInvestment and lnGNP		
H_0:r=0	23.64*	15.36
H_0:r $\leq$ 1	1.82	3.74
(3)lnExports and lnGNP		
H_0:r=0	29.46*	15.40
H_0:r $\leq$ 1	6.71	3.73
(4)lnVolatilityExport and lnGNP		
H_0:r=0	17.22**	15.43
H_0:r $\leq$ 1	3.04	3.74
(5)lnVolatilitySaving and lnGNP		
H_0:r=0	22.56*	15.44
H_0:r $\leq$ 1	4.27**	3.74
(6)lnVolatilityInflation and lnGNP		
H_0:r=0	10.25	15.43
H_0:r $\leq$ 1	4.12**	3.75

Notes:

r shows the number of co-integrating vectors.

Akaike Information Criterion (AIC) and Schwartz Criteria (SC) were used for the selection of the lags. Volatility of the variables has also been investigated according to the stationarity purposes.

After obtaining the stationarity of data, Johansen (1988) and Johansen and Juselius (1190) approach has been used with the choice of lag length (Chang, 2002) to find out the possible long-run relationship among the considered variables.

From Table 6, it is concluded that each pair of variables are co-integrated with each other indicating that there is a long-run equilibrium relationship between these variables.

An Error Correction Model should be used to dtermine the direction of causality since there is a co-integration relationship between the variables. If the variables are co-integrated, Granger (1988) indicates that there is at least one direction of causality among the variables.

Granger Causality Tests

Table 7

	Lag 1		Lag 2		Lag 3		
Null Hypothesis	**F**	**t-on ECMt-1**	**F**	**t-on ECMt-1**	**F**	**t-on ECMt-1**	**Conclusisons**
(1)lnDomesticSaving and ln GNP							
Domestic Saving does not Granger cause GNP	1.25	1.31	0.68	1.51	0.48	1.56	Domesting Saving → GNP
GNP does not Granger cause Domestic Saving	2.71**	-2.31**	1.71	-2.44**	1.82***	-2.41**	
(2)lnDomesticInvestment and lnGNP							
Domestic Investment does not Granger cause GNP	0.18	0.35	0,36	1.06	0.82	2.15	Domestic Investment → GNP
GNP does not Granger cause Domestic Investment	7.55*	-4.42*	3.25**	-3.35*	1.75***	-2.13**	
(3)lnExports and lnGNP							
Exports does not Granger cause GNP	7.42*	-3.05*	3.15**	-2.21**	3.18*	-2.95	Exports → GNP
GNP does not Granger cause Exports	0.41	0.93	0.93	1.56	1.96	2.71	
(4)lnVolatilityExport and lnGNP							
Volatility Export does not Granger cause GNP	2.92**	-0,80	2.05***	-1.62***	2.40**	0.08	Volatility of Export → GNP
GNP does not Granger cause Volatility Export	1.78	-2.31**	1.62	-1.75**	1.72	-2,21**	
(5)lnVolatilitySaving and lnGNP							
Volatility Saving does not Granger cause GNP	1.85	-1.07	2.52**	-2.21**	2.58**	-2.05**	Volatility of Saving → GNP
GNP does not Granger cause Volatility Saving	1.30	1.87	0.87	-1.20	2.21**	-1.08	
(6)lnVolatilityInflation and lnGNP							
Volatility Inflation does not Granger cause GNP	0.53	0.92	0,63	-0,74	1.27	1.47	Volatility of Inflation → GNP
GNP does not Granger cause Volatility Inflation	6.51*	4.38*	2.71**	-3,09*	2.21**	-2.69**	

Notes:

*, ** and *** indicate the rejection of the null hypothesis at the levels of 1%, 5% and 10% respectively.

Conclusions and policy issues

This study has investigated the six hypotheses and has concluded that higher domestic saving rate, higher domestic investment rate, higher growth rate of exports, higher volatility of export growth and higher volatility of saving affects the growth rate of real GNP.

It is also important to think in which way the real GNP is affected. According to the cointegration and OLS results there are positive relationships between domestic saving and growth rate of real GNP; domestic investment rate and growth rate of real GNP; growth rate of exports and growth rate of real GNP. On the other hand, higher volatility of export, higher volatility of saving and higher volatility of inflation rate affect growth rate in negative ways.

Also, from the tables, it is advisable to have a good saving and investment rate to develop more and to catch the necessary growth rate with low inflation. Most of the developed countries (not China) have the policies of growing with export. Growing with exports can lead to negative effects on the economy such as uncertainty and risk when thinking the usage of capital investment. It can also be said that the investment can move from traded goods to non-traded ones (Gehrels, 1991).

If there's no consistency in the economy such as the consistency in the saving rate, inflation and the export that are already been analyzed, an uncertainy can occur in the economy by decreasing the motivation of the policies applied. So it is recommended that China and the other developing countries should apply policies that lower the macroeconomic volatility specially for the variables that are considered.

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The Implementation of Systemic Risk Management and the Reinforcing of Macro-Prudential Supervision – Vital Elements in Avoiding the Future Occurrence of a Financial Crisis Similar to The Present One

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Abstract. *Some of the main reasons that led to the emergence of the ongoing financial crisis stem from insufficient risk management, the de-regulation of financial institutions, the lack of macro-prudential supervision and the implementation of the free/perfect markets model. This article analyzes and discusses both the importance of systemic risk management and macro-prudential supervision and their effect upon the ongoing financial crisis, as well as the recent measures undertaken in this respect at the level of the European Union, USA and G20.*

Keywords: systemic risk; macro-prudential supervision; financial crisis; supervision bodies; financial system.

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JEL Codes: G01, G15.
REL Codes: 11B.

Introduction

If one were to analyze the ongoing regulations, rules and supervision systems in the context of today's financial crisis, it would reach the following conclusion: self-regulation is insufficient at the level of financial markets and institutions with systemic importance (which may influence the stability of the financial system) (Tumpel-Gugerell, 2009). At the same time, given the current integration level of financial markets, the orientation of prudential supervision almost exclusively towards the individual level of financial institutions is inefficient, whereas complex assessments of aggregated risks at systemic level are insufficient and lack an institutionalized framework with clear-cut responsibilities (EU Commission, 2009).

Furthermore, in the context of the ongoing crisis, where large financial-banking groups could only overcome their difficulties due to the support of the state, correlated with the strong impact the effects of the crisis have had upon all other economic entities (both corporate and individual entities), it's quite obvious that the maintenance of financial stability should be high on the public interest agenda.

Consequently, public authorities must by all means undertake the proper measures for the regulating, supervising and monitoring of financial markets and institutions which may influence the stability of the financial system at global level.

We also feel that the risks which may affect the stability of the financial system also stem from the high concentration degree on a small number of financial institutions, as well as from the interdependencies created among them and other components of the financial system.

Relevant examples in this respect point back to the impact that the Lehman Brothers' bankruptcy and the near-bankruptcy of AIG and Bear Stearns have had upon the international financial market (Tumpel-Gugerell, 2009).

Thus, the "too big to fall" idea in the financial area has proven incorrect or in dire need of revision. On the contrary, we feel that arguments may be drawn up so that banking asset concentrations are avoided. There are countries where banking assets are very high as compared to the national GDP (such as Switzerland, with 820% assets/GDP, Belgium, with 630%, Holland, with 530%, Great Britain, with 430% etc.; at the same time, USA only has 90%), countries which also have a large concentration degree upon a small number of banks. In this context, we should mention that Switzerland has decided to undertake prudential measures with respect to very large banks, the potential bankruptcy of which might be disastrous for the country's economy; the preventive measures Switzerland wants to undertake are own fund increases, the maintenance of a proper liquidity ratio, the potential separation of important activities at bank level from all other activities and the liquidation of the latter, in case of necessity, so that the economy continues to function, etc.

1. The financial de-regulation process, correlated with the application of the free market model/ perfect markets theory

The ongoing crisis is also rooted in the financial de-regulation process that started in the'80s, which was correlated with the implementation of the free-market model that dominated the economic/financial system of capitalist countries (Soros, 2009).

Therefore, we feel that the real estate bubble (especially the USA one) was equally caused by lax crediting standards, permissive assessments of collaterals, as well as the wide availability of loans (due to high liquidities). We should also mention that the onset of this bubble was the beginning of the 80's (when the financial de-regulation process began as well), whereas the sub-prime crisis acted solely as a detonator nearly 30 years later.

Thus, president Ronald Reagan supported in the beginning of the 80's the idea that the government was not the solution but the problem, opposing the development of the nation, his solution being the granting of extended liberties to the capitalist system – this was one of the first elements which supported the de-regulation process in the USA, subsequently expanding to other capitalist countries (Aversa, 2009).

A brief re-regulation process was unfolded at the end of the 80s and the beginning of the 90s, due to the bankruptcy of many American banks.

The de-regulation process was continued during the Clinton administration – barriers between banks, insurance and investment companies (implemented in the '30s) were eliminated, but the latter did not observe the same rules applicable to banks; the effect of this measure was the drawing up of giant "one-stop shopping" financial supermarkets. At the same time, in the context of the new monitored climate and looser money policies, a large variety of complex financial instruments emerged and developed exponentially, subsequently being turned into asset packages and sold to investors (several of them based on average or low-quality mortgage loans). Meanwhile, the main regulatory changes that emerged were the strengthening of rules against corporate frauds and accounting practice rules, caused by the famous bankruptcies of Enron and Worldcom.

In this respect, we feel that regulatory bodies have their responsibility in the emergence of the financial crisis, for accepting the diminishment of requirements for the supervision of the financial system.

The main reason behind de-regulation was the idea that markets are able to self-regulate; it is believed that the self-regulatory ability exists as long as there is trust and as soon as this trust is breeched by systematic interventions, markets become hyper-sensitive and instable, while the potential emergence of a crisis is accentuated.

In this context, we feel we must remind the fact that Alan Greenspan, FED president between 1987 and 2006, has declared: "I made a mistake assuming that companies from the financial sector are able to self-regulate. I was wrong thinking that it was the interest of organizations, especially banks, to protect its own shareholders".

At the same time, given the effects of the ongoing crisis, famous businessman George Soros declared: "The ongoing system was based on the false assumption that markets can independently regain their balance and that the system adjusts itself". "We need international regulations to control international markets". Considering what happened as the crisis emerged, we feel that the market wasn't given the slightest chance to self-adjust – large banks and financial institutions immediately resorted to state aid, even though not so long ago they vehemently criticized the state's intervention.

In this context, we feel it's obvious that the guardian state or state interventionism theory supported by the great economist John Maynard Keynes applies. This theory pleads in favor of interventionist governmental policies – governments must use fiscal and money policies to control economy. The idea emerged in the '30s, rather turbulent times from an economic point of view, when capitalism was severely trialed by the Great Recession.

Consequently, the state has regularly become a guardian at difficult times (the emergence of a crisis), its role becoming unwanted as soon as the crisis ended.

In this context we should also point out that several years ago, the general belief was that the main feature of a successful society was the market economy of capitalist markets. In the past 20 years, capitalism has gradually expanded around the globe, including former communist countries, resulting in the prosperity of these states (Hassett, 2009).

Moreover, the countries that implemented most capitalist and free market rules, such as the USA, have exceeded in terms of development and economic strength those countries which maintained control upon their economy to a smaller extent. In this respect, people have come to the conclusion that there is a direct relation between economic freedom and economic growth.

At this moment, we have reached a turning point where most of the population, economic agents and authorities are reconsidering their vision on capitalism.

It's very important to mention that this is not the only time in history when this has happened. The idea that the capitalist system based on a free market is the best organizational principle for any society is an old one, going back to 1776, when well-known economist Adam Smith wrote a paper entitled *Wealth of Nations*. The fact that capitalism has its flaws/ shortcomings is also an old idea – critics and alternatives being put forth since then by several economists (like Keynes and Marx).

Notwithstanding its deficiencies, capitalism has survived and thrived because its results have far exceeded the results of alternative systems (see communism, basically the opposite of capitalism – full state control upon economy).

Our opinion is that a combination between the sustained application of capitalist principles, correlated with a better macro-prudential supervision of those financial system areas which may entail the occurrence of systemic risks (with not only local or national impact, but also global impact) or the onset of a crisis, is one of the main solutions.

Thus, given the ongoing crisis, it is believed that the strengthening of financial regulations may prevent/ control its causes (Aversa, 2009).

Such measures have the purpose of preventing the greediness and undertaking of high risks by some financial institutions, which led to the emergence of the ongoing crisis, and at the same time seek to establish a balance in terms of avoiding excessive regulations, as state control does not always have positive results.

In this context, we feel that the unjustified strengthening of regulations after the emergence of a crisis in order to control risks already obvious for all the players on the respective market may have limited efficiency. Relevant in this respect are the declarations of Mr. John Steele Gordon, a historian of economic sciences and author of the book "*The Great Game: The Emergence of Wall Street as a World Power*", namely: "In theory, a market and its regulations should evolve together. In fact, almost always, regulations emerge after the occurrence of financial disasters"; "Disasters teach us how to prevent the latest one emerged", he also said.

Another relevant opinion in the context discussed above belongs to American businessman George Soros, who believes that once regulations are too loose – a factor which has contributed a great deal to the emergence of the ongoing crisis, one must resist the temptation of going too far in the opposite direction (*Ziarul Financiar*, 2009). Although markets are imperfect, authorities are even further from perfection than the former, as they are governed by bureaucracy and political influences.

2. The importance of systemic risk management and macro-prudential supervision

Unlike micro-prudential supervision (namely the individual supervision of financial institutions), macro-prudential supervision derives from systemic risk, defined as the risk afferent to an important part of the financial system (Smaghi, 2009).

The purpose of macro-prudential supervision is two-folded: the first fold is the analysis and the supervision of risks, whereas the second fold is the controlling of the risks identified, which requires specific instruments. Thus, there are minimum three elements which should draw up the fundament of the supervision and analysis dimension of systemic risk:

- This analysis must consider all components of the financial system, as well as the way in which they interact (including all financial intermediaries and all markets). In this respect, we should mention that some of these components, such as hedge funds, private equity companies and over-the-counter (OTC) financial markets are not currently monitored individually. At the same time, the ongoing crisis in which these entities played an important part revealed it is absolutely necessary that they are part of the micro and macro-prudential supervision process.
- The assessment of systemic risks should consider the interdependencies established between the financial system and the economy. Thus, one should mention that in the past, economic crises would generally cause systemic banking crises, while the ongoing crisis reveals the major impact that it has had upon the economy. In this respect, for the future, it is quite obvious that macro-prudential supervision must consider the interaction between the financial and the economic sector.
- The third element which must be considered is the fact that financial markets are not static, constantly evolving due to financial innovation and the international integration process, therefore macro-

prudential supervision must integrate specific measures covering these areas.

The main result of macro-prudential supervision and analysis activities is the assessment of aggregated risk (systemic risk) at financial system level and its potential implications upon the economy. This includes the elaboration of scenarios with extreme shocks, the result of which leads to the ultimate assessment of the strength of the financial system and of the economy. Another absolutely necessary element is the one referring to assessments of how imminent a crisis is at one moment and what the risks which may lead to the emergence of this crisis are.

The necessary elements for the performing of these analyses are detailed information on: the evolution of financial markets, macroeconomic indicators, financial intermediaries (including those which are not part of the supervision perimeter of the authorities), payments and discounting systems, corporate and individual clients, as well as the relations between the main economic and financial sectors.

One should pay special attention to the collecting of detailed information from financial institutions on the exposure derived from on-balance and off-balance products, separated on assets and liabilities, geographical areas, sectors of activity, currencies and counterparties, as well as information on the models and methods used for the management of the risks entailed by the activities unfolded.

The information obtained must be used for the assessment of exposure to risks at financial system level and for the drawing up of the necessary measures for the avoiding of crises. This may be performed with the help of financial stability indicator models, early warning systems, stress test models, etc.

After the identification of exposures to systemic risks, the next step is their management. One option would be communicating them to financial institutions, so that the latter are warned and have the chance to properly adjust their internal policies.

Another option would be the intensification of the supervision of financial institutions in order to avoid the undertaking of high risks. A third option would be the changing/elaboration of new prudential regulations with the same purpose, namely the avoidance of the undertaking of high risks.

The necessary measures elaborated for the decreasing of the pro-cyclicality of the financial system must be part of the macro-prudential policy. Some of these measures are the adjusting of capital requirements to the economic cycle (they should be less strict during unfavorable times and more strict during economically thriving times), the implementation of dynamic provisioning rules (reserves must be accumulated during favorable times and released during unfavorable times) etc.

The set of macro-prudential measures must include actions so as to decrease contamination and the number of channels via which financial institutions send their problems (including payment systems, the discounting of operations performed with derivatives, etc.).

After determining the objectives afferent to macro-prudential supervision, one must also analyze the institutional framework which should support this process. This framework must consider the central bank, as well as supervision and regulation bodies of institutions and financial markets. In countries where the latter are separated, one must ensure cooperation/the sending of information between these institutions. In Romania's case, for example, activities related to banks and non-banking financial institutions are unfolded by the Central Bank, which in our opinion makes this process more efficient.

Countries where the two entities are separated have the following options: first option – the central bank identifies systemic risks and puts forth recommendations to the supervision authority which undertakes the necessary measures; second option – the central bank identifies systemic risks and determines the proper measures to be undertaken and implemented by financial institutions; third option – the decisions/ measures are undertaken by a committee made up of representatives of the two institutions.

3. The main measures undertaken for the management of systemic risk and macro-prudential supervision following the emergence of the ongoing financial crisis

The experience of the ongoing financial crisis reflects both the low efficiency of the supervision activity of some financial institutions (in terms of micro-prudential supervision) and of the supervision activity performed at the level of the entire financial system (macro-prudential supervision) (European Committee, 2009b).

Thus, for example, at the level of the European Union, in compliance with the ongoing model, the supervision of financial institutions is performed at national level, but this covers to a low extent the European financial system and the interdependencies between the financial markets of EU countries, on the one hand, and the other international markets, on the other hand.

The status is somewhat similar in what concerns the supervision of the financial system of the USA and of other financial markets, as well as at global financial system level.

The current crisis has also revealed a series of issues concerning the cooperation between national supervision bodies responsible for various activities/segments of the financial system.

In addition to the above-mentioned information, we want to analyze the main measures undertaken at global level for the improving of systemic risk management and the strengthening of macro-prudential supervision, as well as the underlying reasons.

Thus, during the summit held in Brussels in June 2009, EU state and government officials have stipulated the necessity of strengthened means for the supervision of the banking system, as well as the drawing up of pan-European supervision bodies able to prevent the future occurrence of an economic crisis.

Three pan-European supervision bodies will be drawn up in 2010 with the purpose of ensuring the implementation of new prudential regulations, as well as a Systemic Risk European Council, with the purpose of supervising the risks which might affect financial stability at community level.

Nevertheless, it is estimated that the regulations drawn up at European level for the prevention of a crisis similar to the ongoing one are relatively modest as compared to the measures undertaken by the Washington government, which grants the state wide intervention powers in the supervision of the financial system.

3.1. The measures undertaken for the management of systemic risk and macro-prudential supervision at European Union level

The EU financial markets have become more and more integrated in the past years, being dominated by Pan-European financial groups, the risk management functions of which are widely based on standards drawn up by mother-banks (European Committee, 2009a).

The ongoing crisis has revealed that the orienting of the supervision activity almost exclusively at the individual level of financial institutions is not beneficial and that complex assessments of aggregated risks at systemic level are insufficient.

Furthermore, from the point of view of aggregated supervision, there is a strong discrepancy between the ongoing integration level of European financial markets and supervision bodies, the responsibilities of which are exclusively applicable at national level.

This issue is also amplified by other major problems triggered by the crisis, namely:

- The major contamination degree between financial markets from various countries (cross-border contamination), both European or otherwise;
- The drastic decrease in trust from individuals and economic agents, which played a major part in the emergence of the economic recession;
- The decrease in competitiveness of the European financial industry at global level, as compared to the less drastic scenario which might have happened had there been more efficient supervision means and policies;
- National policies drawn up in compliance with local requirements/terms, which may negatively impact the efficiency of the unique European market.

The crisis has also revealed the fact that financial instability affects a wide range of entities, such as:

- Financial institutions, including shareholders and employees;
- The users of financial services and products;
- Public authorities, including supervision bodies, central banks, other state authorities.

The European Committee has analyzed its options with respect to micro-prudential supervision from two points of view, namely from the point of view of the supervision system and from the point of view of institutional structures (European Committee, 2009a).

From the point of view of the supervision system, the options analyzed were the following:

1. the maintenance of the ongoing supervision system;
2. national supervision bodies should be fully responsible for both the supervision of financial institutions with local capital and for institutions controlled by offshore institutions;

3. the expanding of the supervision abilities of state authorities of the country where the mother bank of all institutions in one group is located, regardless of the latter's locations;

4. the drawing up of a European System of Financial Supervisors – ESFS;

5. the drawing up of a sole supervision body at European level, which will supervise the activity of all financial groups unfolding their activities in several EU states, while national supervision bodies will only have responsibilities related to financial institutions with local capital.

After analyzing the impact of options for micro-prudential supervision, options 1, 2 and 3 were eliminated due to their low efficiency. In the next step, options 4 and 5 were comparatively assessed.

Thus, from the point of view of efficiency, it's less likely that at the moment a sole supervision entity at EU level could have profound knowledge on individual banking groups, so as to ensure the protection of deponents and investors from various countries, as well as the stability of the financial system. In this respect, the drawing up of a European System of Financial Supervisors is more efficient, as national supervisors, who have quick access to the local information available, can also undertake current supervision activities. Another element in favor of the de-centralized system is the fact that at the moment there is no financing framework at European level able to help a financial institution with difficulties.

The ESFS will be made up of national supervision bodies and its objective will be micro-prudential supervision at the level of individual financial institutions. The system will combine the local supervision performed by national supervision bodies with the centralization of some responsibilities at European level (European Committee, 2009b). In parallel, several prudential regulations should be correlated at EU level, so that a single set of rules/standards is used in important domains.

The ESFS will be made up of three new European supervision bodies, which will collaborate with national supervision bodies in order to develop common supervision standards.

The European Committee has also analyzed the ongoing debates from several countries referring to the most efficient organization of the supervision of financial institutions, coming up with the following options:

1. a single supervision authority for all components of the financial sector (banking activities, insurances and capital markets);

2. two supervision bodies with distinct tasks: one authority to perform prudential supervision and another one to monitor the current activities of financial institutions; one committee with decision-making power might cover the activity of the two entities, as well as common decisions;

3. sector approach – three supervision bodies: one for banks, one for insurances and pension funds and one for real estate assets;

4. an institutional approach, which in addition to the three bodies mentioned above presupposes the drawing up of a forth authority, in charge with the supervision of financial conglomerates.

The European Committee prefers the last option, as there aren't enough arguments to support the higher efficiency of the other two potential systems. At the same time, cooperation between these sector supervision bodies is absolutely imperative.

Form the point of view of macro-prudential supervision, the following options were analyzed:

1. The maintenance of the ongoing framework, which presupposes the drawing up of this activity via distinct institutions, but which does not ensure a proper mechanism for the supervision and implementation of all recommendations and warnings on systemic risk.

2. Attributing this responsibility to the Economic and Financial Committee-EFC or to the European System of Central Banks -ESCB/ European Central Bank -ECB.

3. Drawing up a distinct entity, namely the European Systemic Risk Council –ESRC; this entity will function independently from the European Central Bank, but its board will be run by the BCE president.

The solution of attributing this responsibility to the Economic and Financial Committee was deemed to be inefficient, due to the political nature of this committee, while the ESCB/ ECB option has its deficiencies from the point of view of the potential conflict of interests between currency stability and financial stability, the excessive concentration of power in the management of financial systems at European level, the reputation risk entailed by macro-prudential supervision etc.

To sum up, from the point of view of macro-prudential supervision, the best option would be the drawing up of the European Systemic Risk Council –ESRC.

The efficiency of this option stems from the centralization of the responsibilities related to systemic risk warnings, the accentuation of the ongoing synergies and from the balanced representation of all states, institutions and authorities.

Thus, the new European Systemic Risk Council will undertake macro-prudential supervision and the management of systemic risk, its objective being the supervision and assessment of all potential threats against financial stability entailed by macro-economic evolution, on the one hand, and by the evolution of the financial system, on the other hand. The council will perform assessments/state warnings on increased exposures to risk at economic/financial system level, as well as issue recommendations on the proper measures to be undertaken to counteract the effects of these risks.

The European Systemic Risk Council will be a new, independent entity, with the following responsibilities:

- Collecting and analyzing all information necessary for the assessment and supervision of all potential threats against financial stability at EU level;
- Identifying and assessing the importance and impact of the respective risks;
- Issuing warnings/notifications on significant risks;
- Issuing recommendations and the necessary measures to be undertaken for the diminishment of exposure to such risks;
- Collaborating with IMF, the Financial Stability Board (FSB) and other relevant counterparties.

The Central Banks of member-states will play a primordial part in macro-prudential supervision; currently, the main responsibilities of central banks refer to the maintenance of currency and financial stability.

In this respect, the necessary macro-prudential supervision analyses will partly use the economic and currency analyses performed by central banks.

In order to be efficient, the European Systemic Risk Council will include the governors of the 27 central banks of the 27 member-states, as well as the president of the European Central Bank. The participation of the national authorities responsible with micro-prudential supervision is absolutely necessary as well. The main reason for this is the fact that due to inter-connections between financial institutions and financial markets, the supervision and assessment of systemic risk must be based on a wide range of macroeconomic indicators, as well as several microeconomic indicators (of individual entities).

At the same time, the current supervision activity of financial institutions shall remain at local level. If several banks require financial support, as was the case during the ongoing crisis, member-states will undertake such action.

3.2. The measures undertaken by USA for the management of systemic risk and macro-prudential supervision at European Union level

One June 17th 2009, the Treasury of the United States of America has put forth a proposition regarding the reforming of the regulations and supervision of the financial system (Clifford Chance, 2009). Thus, from an institutional point of view, the Treasury stipulated four important measures:

- Federal Reserve will become the regulation authority in the domain of systemic risk and the supervisor of important (too-big-to-fall) institutions; at the same time, a new Financial Services Oversight Council will be drawn up.

Federal Reserve will decide which financial institutions have systemic importance (called Tier 1 FHCs), based on criteria such as size, leverage, inter-dependency with other entities, etc.; for these, Federal Reserve will draw up higher prudential requirements, such as higher capital requirements, as compared to all other institutions.

- The drawing up of a new federal agency, namely the National Bank Supervisor, specialized in the supervision and prudential regulating of banks; this will be created by the merge between two existing agencies, namely the Office of Thrift Supervision (OTS) and the Office of Currency Control (OCC).
- A new Consumer Financial Protection Agency-CFPA will be drawn up, with the purpose of supervision the crediting practices of financial institutions, in order to avoid crediting practices which lack transparency/aggressive practices. This new federal agency will have increased supervision competencies upon the activity of providers of services and products for individuals, being the sole agency with attributions in the domain of drawing up consumer protection rules.
- The drawing up of an Insurance Supervision Bureau (within the USA Treasury), responsible with the supervision

of the insurance industry and the identification of all issues which might contribute to the emergence of a crisis, as well as with the informing of Fed on insurance companies of systemic importance.

The Financial Services Supervision Council will be responsible with the management of systemic risk. At the same time, Federal Reserve will decide which financial institutions are important from the perspective of systemic risk and its prerogatives will include requesting reports, performing inspections, drawing up additional prudential requirements, as well as activity restrictions and other similar measures.

Because such measures usually fall under the competence of the micro-prudential supervision authorities, we feel this action slightly contradicts the very notion of macro-prudential supervision. Nevertheless, as the measures undertaken by Federal Reserve shall be complementary to those undertaken by micro-prudential supervision authorities, but generally more restrictive and based on a macro-prudential approach, we believe they will contribute to the strengthening of the stability of the financial system.

As a whole, additional capital requirements and more prudent risk standards are being taken at the level of all banks and banking holdings.

Another important change stems from the application of consolidated rules at the level of financial holdings, in order to include non-banking subordinated branches as well in the supervision scope.

Thus, financial institutions with systemic importance will be analyzed together with private investment funds, hedge funds, private equity funds and venture capital funds, as well as with foreign financial institutions unfolding their activities in the USA. We believe this measure is very important, as it avoids the transferring of risks from monitored entities to entities not included in the prudential supervision perimeter, which may lead to the accumulation of systemic risks unknown to the authority in charge.

Initiatives on the re-assessment of the ongoing supervision standards and capital requirements will be implemented as well, including changes to the computation methods of capital requirements in order to decrease pro-cyclicality; simpler leverage assessment methods will be considered, used complementary to the capital assessment method based on the weighing of assets against risks, as well as new risk provision rules.

What's very important considering the reasons for the emergence of the ongoing crisis is the fact that measures will be implemented so that a proper correlation is achieved between financial compensation schemes for financial institution leaders and the long-term value drawn up for shareholders with the maintenance of the security and the solidity of the respective entity.

Another proper measure is that all OTC derivatives (over-the-counter derivatives, traded outside stock exchanges) will become the subject of exhaustive regulations, clearing operations performed via centralized institutions and clear-cut accounting standards able to prevent frauds, the manipulation of markets and other similar practices.

Conclusions

We consider these initiatives of adjustment of the ongoing supervision system proper, considering the fact that the poor efficiency of the ongoing macro-prudential supervision has had major negative effects at global level.

Had this system been implemented prior to the emergence of the crisis, the problems caused by the aggressive expansion of loans, the increase in the prices of financial and real estate assets, correlated with the under-assessment of the financial institutions' exposure to risks, would not have happened.

We should also mention that the G20 Group has similarly decided in April 2009 during the London Summit to implement new measures able to ensure financial stability at global level, based on the newly-drawn up Financial Stability Board-FSB, which will closely collaborate with the International Monetary Fund in order to issue signals/ warnings on macro-prudential risks at global level (Financial Stability Board, 2009).

In conclusion, we believe that via their contribution to the maintenance of financial stability and the efficient supervision of financial institutions, the new changes made to the supervision framework contribute to the protection of:

- Financial institutions, shareholders, and employees by: improving the business environment by increasing financial stability and preventing crises more efficiently, ensuring a unitary framework and decreasing the costs associated to regulation/supervision activities for financial institutions with cross-border activities;
- Users of financial services, including deponents, investors and non-financial companies by: increasing the trust of consumers and investors in the stability of the financial system; decreasing the bankruptcy risk for financial institutions;
- Consumer and employees from the real economy. The successful identification and prevention of systemic financial crises which may extend upon the real economy will have a benefic effect in preventing and decreasing the impact of macro-economic recessions and associated effects upon consumption, work places, etc.

Public authorities, including supervision bodies, central banks and finance ministries by: clarifying roles and responsibilities, drawing up an interconnection between micro-prudential and macro-prudential supervision; the diminishment of the risk of public money injections into the financial system.

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The Civil Servants Career Development

■

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Abstract. *The current economic and financial context, influenced by the crisis, as well as the need of meeting the European Union standards, make the permanent restructuring of the workforce, combined with career staff development an extremely important line of action. Career consists of succession of positions in a hierarchy, resulting from a series of experiences, correlated with each other, through which any person pass along life. Career or professional development is a process more complex than training, aimed at acquiring useful knowledge, both in relation to the current and future positions, along the life span and development of a person. In the Romanian labour market conditions, organizations need to find the most appropriate way to identify, attract and maintain, with maximum efficiency, performant human resources with exceptional skills and/or professional experience. The choice of specialization has become a component of education. A well-determined vocational guidance system may allow for that choice of specialization which directly answers to the market requirements.*

Keywords: career; civil servants; career management; career success; institutional reform.

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JEL Codes: J28, J45, L32, M12, O15.
REL Codes: 12G, 13G, 14C.

1. Professional career

The speed of economic changes leads to a dynamic of professions and implicitly of the professionals' careers, the trend of which is currently hard to predict and define.

The relevant literature indicates several definitions of the concept addressed.

Career is an evolutionary succession of positions, roles, tasks and professional experiences which a person or an employee has been confronted with in an organization over a period of professional activity (Arnold et al., 1998).

Douglas T. Hall and Philip H. Mirvis (1995) are of the opinion that a career is seen more as a sequence of several shorter learning cycles, or mini-stages that extend throughout the lifetime as an employee of a person rather than a systematic long accumulation of experience.

The concept of career is associated with the idea of advancement of a person in a particular field or in an organization.

The career is also often synonymous to the profession or occupation and represents the period in which a person activates in a particular field, i.e. the position in society, or a phase in social or professional hierarchy (Manolescu et al., 2007).

Gary Johns, in his book "Organizational Behaviour" (1995), presents the career as "an evolutionary sequence of activities and professional positions that a person reaches, and attitudes, knowledge and skills developed over time".

Other authors see the career as a sequence of positions in ascending order of prestige, based upon a pre-established algorithm, through which passes the employee. Other specialists (Barley S.) defined career as a succession of roles in the work of an individual or as a separate series of experiences, correlated with each other, by which any person pass along life.

A similar definition is given by David J. Cherrington (1991), which sees the career as a sequence of individual experiences related to work which are acquired by a person along its professional life.

The career can be defined as an individual and subjective perception of the sequence of attitudes and behaviours, associated with work experiences and activities over the professional life of a person (Hall, 2003). The option for a particular career can not be equalled with the choice of a profession or job. Career management refers to the attempts to influence the nature of own career or the career of another person.

Career management represents the design and implementation of goals, strategies and plans process that allows the organization to meet the needs of human resources and individuals to meet their personal career goals (Klatt et al., 1985).

Armstrong M. (2006) believes that career management is planning and modelling professional development of a person in accordance with the organization needs and with the individual performance, potential and preferences. Nowadays, we are witnessing a trend of active involvement of a person in managing its own professional careers.

Radical changes in the labour market have major implications on professional careers management.

Careers are more diverse and more difficult to administer, which determines giving increased importance to different professional and life experiences of a person, materialized in the development of its own quality and competence.

2. Characteristics of professional career

Career planning is a process identifying the needs, aspirations and the career opportunities within an organization and the implementation of human resources development programs, to support the respective career (Myers, 1986).

A career can be long or short, and an employee can have multiple careers, consecutive or simultaneous.

Individual career includes both professional and family life, and the links between them. Wishing to control the two components of existential activity, any person develops a concept through which it evaluates its own qualities and values.

This process is dynamic and takes place throughout life.

Individual career develops through the interaction between existing skills, the desire for professional achievement and work experiences provided by the organization.

An individual will develop himself and be happy with his career as the company will be able to provide opportunities to promote different levels and positions, which highlight his knowledge and develop his skills.

In carrying on his activities, a person crosses along his career a number of successive stages among which: exploration; stabilization; advancement; preservation; end of career.

Exploration is the confrontation between the often unrealistic visions formed in adolescence and the real world. An individual learns about and chooses among the roles explored.

Meanwhile, the person discovers and develops his talents, skills, interests and values. It is an important moment in the formation of professional identity and choice of activity for the future.

Stabilizing or fixing on a career is to acquire an adequate degree of knowledge, expertise in a given field.

Considering that he has demonstrated his competence, the employee passes the relationship of dependency to self activity, being continually tested on his aptitudes, knowledge, skills, to find if they match or not the initial choice.

Advancing and preserving the profession, opted for, follow the stabilization in different occupational roles and involve the focusing on realistic, key objectives of the career.

This stage may include several directions, namely: development and advancement, preservation, decline. Often, it requires an assessment of achievements and, where appropriate, to decide the change of goals, and even the style of work.

Completion or end of career could mean a period of continued increases in status and influence in the organization, or a period at the highest level of responsibility and status.

There are specialists (Perlmutter, Hall, 1992, Levinson, 1978, Super, Super, 1999) who believe that after 65 years there is a maturity of age, when the individual feels satisfied with the life he has, with his choices and actions.

It is the moment of detachment, characterized by decreasing involvement in work, the tendency of becoming an observer rather than a direct participant in the activities of the organization.

3. Stages of developing a successful career

A successful career is conditional on the involvement of the organization leadership through the human resources department, which has a decisive role in career planning, career management, and counselling.

From this perspective, the company must implement a program of organizational insertion to ensure presentation of the rules and working procedures, and the right familiarisation with values and behaviours needed for a rapid and efficient integration.

However, it is desirable that the initiation of new employees be made by a mentor or a guide from within the organization.

Thus, a person who is responsible, who knows "how things are going on" in the institution, will share the wisdom gained and will help the newcomer to integrate, to cope with potential problems.

In any organization, managers face a number of issues concerning career development. In the current labour market, the increasing importance of the career development, both for the employee and the employer, is becoming more and more evident.

On the one hand, the career development shall provide the employee with the opportunity to accede to the statute that it wants in the context of the requirements determined by various changes, and which confirm the recognition of its merits, as well as the belonging to a specific team of professionals, along with the desired salary.

On the other hand, career development for the employer is an important factor to motivate its employees with potential, which enables it to capitalize effectively and ethically on their value and thus to maintain them in the company.

Given the benefits that the employee can get through his career development, it is understandable that it is necessary to value every opportunity, identify and remove obstacles which could jeopardize the achievement of assumed objectives.

Starting from these premises, career development is a process that involves going through several stages:

- *setting goals* which have to be realistic;
- *developing skills* necessary to achieve goals through sustained involvement in work or related activities, through participation in training programs and a greater preoccupation towards personal efficiency growth;

■ *periodic evaluation of progress achieved*, allowing identification of possible delays from the original plan and of any impediment and those subjective or objective factors which have led to delays;

■ *removing subjective factors* that prevent achievement of the objectives laid down, lack of consistency in pursuing the goals proposed, passivity, superficiality, etc.;

■ *adjustment of the set targets*, if certain objective factors or unpredictable elements require it - the employee discover he has new talents, his organization goes through a reorganization process, changes in legislation governing the area where the employee performs activity etc.

Getting through these stages is designed to effectively exploit opportunities for career development.

At the same time, it is however, necessary to pay attention to the obstacles which could have a strong negative impact on career development:

■ *Occurrence of unforeseen changes* in economic environment, family, etc. To counteract their effect, the employee must show flexibility, adaptability and openness to new.

However, such an attitude must not be exacerbated or turned into opportunism. In this context, the employee is recommended to avoid systematic change in very short periods of time.

■ *The danger of excessive focus to the future*. Concentrating on obtaining the desired results, the employee may focuses all its attention to achieve them and thus, often, miss satisfactions that present can offer and reaches a state of discontent, of frustration.

The ideal situation is fully enjoying the current success, while also focussing on the future development.

■ *Neglect giving due attention to family duties*. For example, some jobs may require an employee to go on extended work program, to travel and/or work during weekends, inter-organizational and geographical mobility, which could have negative effects on family life.

Some people may be more interested in combining efficiency in work with personal life, rather than in rising on the professional hierarchy.

Therefore, linking aspects of the career to the family aspects permits to avoid conflict situations which generate tension.

Besides all the above issues, career development also involves valuing the idea that “there is always something to learn” – continuous training and upgrading skills and knowledge to generate new ideas and thus keep with change.

Harmonious combination of these elements, together with much passion and dedication, offer the employee all the chances to build a successful career, and ensure an upward evolution.

4. Civil servants career

Government Decision no. 611/2008 stipulates the possibility of civil servants to develop their professional skills within a genuine career.

A career in the public function includes all legal situations, and the effects deriving there from, that occur, under the law, from the beginning of the activity of a civil servant to the cessation of these respective relationship.

Among the principles underlying the organization of civil servant career, we can mention (GD no. 611/2008):

- *jurisdiction* requires that individuals wishing to enter or promote to a public function, hold and confirm the know-how and skills necessary for the exercise of the respective public function;
- *competition* the confirmation of the knowledge and skills necessary for the exercise of public functions is done through competition or examination;
- *equal opportunities* the career in the civil service can be pursued by any person that meets the conditions established by law;
- *professionalism* effective performance in exercising public power prerogatives;
- *motivation* the authorities and the public institutions are required to identify and apply, in the respect of law, instruments of moral and material motivation of civil servants, and to support initiatives for professional development of the individual;
- *transparency* authorities and public institutions are required to provide all interested parties, information of public interest related to career in public function.

In accordance with this government decision, the career management in the public service is provided through:

- The National Agency of Civil Servants, by developing the legal framework and the required instruments for the organization and career development in civil service;
- Authorities and public institutions, by applying the principle of equal opportunities and motivation;
- Civil servant itself, through a consistent application of the principles of competence and professionalism in order to secure individual improvement.

A particularly important step in the civil servants career consist in the individual and the working teams' assessment on both the results obtained and the possibilities to work better in the public interest.

Evaluation and appreciation of a civil servant is an important potential source for career development that may affect the person's motivation to work and professional satisfaction for the results obtained.

In this respect, it is necessary to use correctly and precisely set out criteria for the respective function.

In order to maintain high professional civil servants, it is necessary that they enjoy stability in the career, but in respect of legal responsibility for breach of service obligations.

In general, the career of a civil servant consists in two periods: until the age of 45, there is a continuous process of professional achievements, providing business efficiency and growth in labour productivity. Follows the second part of the career where one can see there is stagnation; efficiency in performance is due to the accumulated experience.

The civil servants are required to learn continuously to meet new developments and legislation in the field they operate.

Professional competence must be therefore maintained and continuously upgraded in order to fulfil efficiently and in good conditions their attributions. Promoting quality management comes in support of the civil servant by improving the individual and collective activity, with direct impact on the quality of services provided and, increasing citizens' satisfaction.

In this way, one contributes to achieving the public institutions goals and especially to improve relations with citizens to solve favourable the personal or public problems for which they call support.

Achieving this goal begins with professional preparation and periodic training of civil servants.

In this context, it is necessary that they know in detail the activities to be carried on, the working procedures, the behaviour requirements towards the citizens, the methods of investigation and analysis, the techniques of communication, the access to databases and the legal framework for the solution of citizens´ requirements.

5. The need for an institutional reform

An important role in the development of civil servants career has the institutional reform, which should aim to change current mentalities, and the existing complex processes and structures.

It is therefore necessary to proceed to the training and the development of a stable and professional civil servants staff, to help streamline the system and to improve relations between administration and citizens.

We believe that the system of values on which the institutional reform should be based requires the following:

- professionalism and performance that any civil servant should prove;
- transparency of the administrative act and of the activities of the administrative structures;
- ethics of civil servants enshrined in a code of ethics;
- dignity on professional and extrapro-fessional behaviour, i.e. the civil servants should abstain from actions and behaviours that affect the prestige of the public function, as well as the public institution in which they activate;
- team spirit, which is absolutely necessary in order to increase the functionality of public institutions.

However, the motivation of civil servants should not be addressed globally, but as a process with a strong individual character, because it is complex and has a number of particular features.

In addition to high wages or other material benefits, the motivation also involves safety of person and job security, possibility of expressing own views and formulate proposals, access to more information relevant to work, a honourable social status, based on esteem and consideration, etc.

Appropriate answers to personal interests of civil servants in line with the objectives of the institution can only be achieved by promoting a realistic and dignified conduct as regards the use of existing staff.

On the one hand, most of the managers are of the opinion that it is more efficient and safer, to seek to capitalize on existing staff – as they are – than to appeal to people from outside, recommended or recruited through competition, but which could create problems in the future.

On the other hand, for the institutional reform it is necessary to reduce the civil servants expenditure, which will require an assessment of their work so as to maintain only specialized employees, highly skilled, able to provide quality services to citizens in terms of efficiency and effectiveness.

Actions to reduce the number of civil servants have been until now sporadic, slow and fragmented, even in cases of employees that proved to be insufficient in training to meet the requirements of the job.

In addition, we noted that until relatively recently there were no clear rules on civil service and the public management has been empirical.

The reduction of personnel expenditure in institutions, the need that the private sector enter into partnership with a modern and flexible public administration, as well as the expansion of the introduction of modern computing techniques in order to respond efficiently to the citizens applications represent major requirements of the institutional reform in Romania.

To accomplish these goals, it is necessary to adopt and implement a government strategy on public administration reform to define and ensure professionalizing civil servants, improving recruitment and selection system, and developing mechanisms that result in increased mobility and specialization in the performed function.

The concept of public function identifies with the public authority and includes the persons invested with public power prerogatives.

At the same time, the concept evokes the status of any person exercising a public function prerogatives, regardless of the type of institution or the level at which it occurs.

In this context, one should mention that there is a distinction between civil servants and contractual employee. Thus, the *civil servant* has public authority and its legal regime is governed by the public law rules, while the *contractual employee* is an exponent of some activities corresponding to its profile and its specialty, subject to the rules of labour law.

At the level of the central public administration, it is necessary to maintain a flexible, restructured body, which have the capacity to intervene effectively in its own program.

Bureaucracy need also to be reduced so as the increase performance and delegation of authority to ensure greater efficiency in the administrative mechanisms.

Within the limits of resources allocated and the strategy adopted, the civil servants should have the freedom to choose the tactics and procedures on the condition of periodic assessment of the relationship "resources – strategic objectives – results".

Romania's integration into European Union requires reforming the public administration, as well as economic, social and cultural institutions, developing local autonomy, in line with the principles of the European Charter of Local Autonomy.

Decentralization should be a primary dimension of institutional reform, aiming at increasing awareness and involvement of local communities in managing local and regional issues. This means the gradual transfer of competence and authority from the state to local communities.

Ministries would thus become more flexible, with a small number of staff, but highly qualified and able to develop policies, strategies and monitor national programs.

It is also necessary to pursue the decentralizing of both decision and administrative action, from the central level to territorial service.

To achieve these goals, it appears necessary to maintain and promote honest and responsible professional civil servants, since they are in direct contact with citizens and on how they perform their duties depends largely the institution image.

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Variable Costs Method. Application Variants Adapted to Romanian Accounting Plan

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Abstract. *This article describes the variable costs method and its adaptation possibilities to the Romanian general accounting plan. There are described the three variants of the variable costs method and presented the methodological stages that are passing through managerial accounting using the 9th class "Management accounts". The article is ending with the advantages and disadvantages of adaptation of variable costs method to the Romanian general accounting plan.*

Keywords: variable costs, period costs, accounting plan, raw profit contribution, internal offset.

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JEL Codes: M21, M41.
REL Codes: 7C, 14I.

1. Variable costs method. General features

The essence of this method consists in separation of production and marketing and sales costs, in rapport with their character toward variation of physical volume of production and marketing and sales, into variable and period costs and considering for unitary cost calculation only the variable costs; period costs are deducted from the financial gross result of the enterprise. The method accentuates the sale's impulsion as result of period costs amount is not distributing over stockage (execution products, finite products, fortward products but not received) it have been covered by the period sales. Obtaining of maximum economic-financial results imposes optimization of price-cost-volume of production (sales) correlation. This correlation is expressed with help of indicators such as: equilibrium point (known as dead point or rentability point), covering point, and dynamic safety coefficient and safety interval.

2. Adaptation possibilities of the general accounting plan to the variable costs method

The economical content and accounting correspondences between accounts of the 9th class "Management accounts" standardized by the Romanian accounting laws are satisfying only the necessities of the full costing calculation organizational methods and less the partial costing methods. The necessities which reclaim the partial costing calculation method, variable costs method, are referring to some 9th class accounts that must be adapted in denomination and content according to the specific of the method. The developed variant of the managerial accounting proposes the following objectives: analytical evidence of the stockage and analytical calculation of the costs and results on value carriers (products, works and services).

It has been made the changing denominations of some accounts foreseen in the developed variant of the managerial accounting for surprising as well as it get the economical content and essence of the used accounts by the variable costs method. Also, some accounting correspondences must be adapted for the following manner[1]:

921 Account "Main activity expenses" will reflect the variable expenses of these activities under the denomination of 921 "Variable expenses". This account will be developed analytically in function of activity type in:

921.01 "Variable production expenses";

921.02 „Variable marketing and sales expenses".

Each of these accounts will be divided in the second degree operational accounts on primary expenses elements or calculation articles, formed from variable expenses.

923 Account "Indirect expenses" will reflect the semi-variable expenses under the denomination 923 "Semi-variable expenses" because the overhead expenses ensued to be allocated over costs formed from variable expenses. This account is imposing to be detailed in second degree operational accounts in the same way as the variable expenses accounts: both on primary expenses elements and calculation articles formed from these overhead production expenses. The separation of the semi-variable expenses in

variable and period will be realized with the extreme point proceeding.

Account 924 "General management expenses" will reflect the period expenses no matter of place or outgoing area under the denomination of 924 "Period expenses". Embracing the evolved variant of the variable costs method (with the 5th levels of internal offset of the period expenses) we are proposing the following analytics for this account:

924.01 „Period product expenses";

924.02 „Period place expenses";

924.03 „Period departments' expenses";

924.04 „Period marketing and sales expenses";

924.05 „Period management expenses".

931 Account "Manufactured output cost" will reflect the volume of the revenues that will be taken over from the financial accounting under the denomination of 931 "Manufactured output revenues". It has been choosen for this denomination because the specific of the variable costs method imposes pursuing the obtained revenues through managerial accounting of the costs. According to the specific of this method and not only because recording of some deviations between the obtaining production moment and its delivery moment it is imposing introduction into the managerial accounting of the stockage and price differences accounts prevised in the developed variant as it follows:

9445 „Finite products";

9448 „Product cost differences".

With the help of these accounts will be evidenced the obtained and unsold product stockage at antecalculate variable costs reflecting in a corresponding way and the differences between antecalculate and effective variable costs. The recording of price differences afferent to sold out product will be calculate with the help of allocation coefficient of the price differences (K_{9448}), calculated as:

$$K_{9448} = \frac{Si_{9448} + Rd_{9448}}{Si_{9445} + Rd_{9445}},$$

where:

$$Rc_{9448} = Rc_{9445} \times K_{9448}.$$

If the evidence of the obtained product stockage it will be carried on in effective variable costs, the 9448 account "Product cost differences" remains without object.

903 Account "Internal offset for price difference" will reflect raw contribution after each step of period expenses internal offset under denomination of 903 "Internal offset regarding raw contribution". Also, it can be used and for raw economical-financial result formation of the enterprise.

901 Account "Internal offset for expenses" will be entitled 901 "Internal offset for expenses and revenues" and will reflect through its credit taking over of the expenses and through its debit taking over of the revenues from the financial accounting into the managerial accounting. Still in its debit should pursue for taking over at the end of the month and the raw economic-financial result.

3. Variable costs method typology

The variable costs method knows three variants: *simplified*, *evolved* and *period expenses covering calculation*.

A. Variable cost method. Simplified variant

Beside general features specifically to variable costs method, the simplified variant consists in effectuation of calculation and analysis of production expenses in rapport with their character on main economic processes, respective production and marketing and sales, and inside on its based components[2]. The variable expenses afferent to each product is calculated and analyzed separately for the production process and, respectively, marketing and sales process, and inside of it on base main components. This thing gives the opportunity for determination of profit raw contribution from production and profit raw contribution from marketing and sales. The period expenses is determining on main processes that is occasioned them, respectively, production, marketing and sales and management, and base components, namely productive indirect personnel salaries expenses and other that is influencing the profit raw contribution for determining the final result.

The steps through stages for unrolling calculation works are:

1. Determination of product and enterprise marketing and sales:

$$d_i = Pv_i \times Q_i \text{ sau } D_T = \sum d_i,$$

where:

d_i = marketing and sales afferent to „i” product;

Q_{-i} = quantity afferent to „i” product;

Pv_i= unitary marketing and sales price afferent to „i” product;

D_T = total marketing and sales (unity level).

2. Determination of production variable expenses:

$$CHVp_i = \sum_{a=1}^{n} CHa_i \text{ sau } CHVp_t = \sum CHVp,$$

where:

$CHVp_i$ = production variable expenses afferent to „i” product;

CHa_i = expenses afferent to „i” product on calculation articles structure;

$CHVp_t$ = total production variable expenses (unity level).

3. Determination of marketing and sales variable expenses:

$$CHVd_i = \sum_{a=1}^{n} Cha_i \text{ sau } CHVd_t = \sum CHV_D,$$

where:

$CHVd_i$ = marketing and sales variable expenses afferent to i” product;

Cha_i = expenses afferent to product on calculation articles structure;

CHVd = total marketing and sales variable expenses.

4. Determination of total variable expenses: $CHV_T = CHV_P + CHV_D$.

5. Determination of raw profit production contribution:

CBP from production = Marketing and sales – CHVp.

6. Determination of raw profit marketing and sales contribution:

CBP from marketing and sales = CBP from production - $CHV_{D.}$

7. Determination of period expenses:

$$CHfixe_T = Chfixe_{(P)} + Chfixe_{(D)} + Chfixe_{(A)},$$

where:

$CHfixe_T$ = total period expenses;

$Chfixe_{(P)}$ = production period expenses;

$Chfixe_{(D)}$ = marketing and sales period expenses;

$Chfixe_{(A)}$ = management period expenses.

8. Determination of the final result: Final result = CBP from marketing and sales – $Chfixe_T$.

The methodological stages which are passing through managerial accounting are the following:

Stage	Debit		Credit
1. Registration of the variable expenses (production and marketing and sales):	921 „Variable expenses"	=	901 „Internal offset for expenses and revenues"
2. Registration of period expenses:	924 „Period expenses"	=	901 „Internal offset for expenses and revenues"
3. Registration of semi-variable expenses:	923 „Semi variable expenses"	=	901 „Internal offset for expenses and revenues"
4. Registration of separation of semi variable expenses in: variable and period(3).	921 „Variable expenses" 924 „ Period expenses"	=	901 „Internal offset for expenses and revenues"
5. Calculation and registration of unity obtained production. Whole obtained quantity is registering at antecalculate cost:	9445 „Finite products"	=	902 „Internal offset for obtained production"
6. Offset effective variable expenses (production and marketing and sales):	902 „ Internal offset for obtained production"	=	921 „Variable expenses"
7. Registration of cost differences afferent to the products, at the end of the month: (effective cost – antecalculate cost)	9448 „Product cost differences"	=	902 „Internal offset for obtained production"
8. Registration of revenues afferent to the sale production:	901 „Internal offset for expenses and revenues"	=	931 „Revenues of obtained production"
9. Management discharging of the finite sale products:	931 „Revenues of obtained production"	=	9445 „Finite products"
10. Registration of price differences afferent to sold out quantities based on it allocation coefficient:	931 „Revenues of obtained production"	=	9448 „Product cost differences"
11. Registration of raw profit contribution (marketing and sales – variable expenses):	931 „Revenues of obtained production"	=	903 „Internal offset regarding raw contribution"
12. Registration offset period expenses:	903 „Internal offset regarding raw contribution"	=	924 „Period expenses"
13. Registration of obtaining result (raw contribution – period expenses):	901 „Internal offset for expenses and revenues"	=	903 „Internal offset regarding raw contribution"

B. Variable costs method. Evolved variant

It supposes calculation of raw profit contribution in stages, in function of organizatorical levels and introduction of standards and expenses budgets. The levels offset period expenses are constituted considering processes that occasioned it (production, marketing and sales, management). For offset of the period expenses, in practice is constituted five levels: product, place, department, activity sector and unity. The standards are applied to variable expenses and expenses budgets to period expenses.

The stages through stages for unrolling calculation works are:

1. Determination of product and enterprise marketing and sales:

$$d_i = Pv_i \text{ x } Q_i \text{ sau } D_T = \sum d_i,$$

where:

d_i = marketing and sales afferent to „i" product;

Q_i = quantity afferent to „i" product;

Pv_i = unitary marketing and sales price afferent to „i" product;

D_T = total marketing and sales (unity level).

2. Determination of production variable expenses:

$$CHV_P = CHV_{PS} + \Delta_{PS},$$

where:

CHV_{PS} = standard production variable expenses;

Δ_{PS} = deviations from the standard production variable expenses.

3. Determination of raw profit production contribution:

$$CBP_i = d_i - CHVp_i$$
$$\text{or CBP from production} = D_T - CHV_{PT},$$

where:

CBP_{-I} = raw profit contribution afferent of „i" product;

d_i = marketing and sales afferent of „i" product;

$CHVp_i$ = production variable expenses afferent to „i" product;

DT = total marketing and sales (unity level);

CHV_{-PT} = total production variable expenses.

4. Determination of marketing and sales variable expenses:

$$CHV_D = CHV_{DS} + \Delta_{DS},$$

where:

CHV_{DS} = standard marketing and sales variable expenses;

Δ_{DS} = deviations from standard marketing and sales variable expenses.

5. Determination of raw profit marketing and sales contribution (level one):

$CBP(I)_i = CBP_i$ from production – CHV_{Di} or CBP (*level I*) = CBP from production – CHV_{DT},

where:

CHV_{Di} = marketing and sales variable expenses afferent ot "i" product.

6. Determination of raw profit contribution (*level two*):

CBP (*level II*) = CBP (*level I*) – Product period expenses.

7. Determination of raw profit contribution (*level three*):

CBP (*level III*) = CBP (*level II*) – Place period expenses.

8. Determination of raw profit contribution (*level four*):

CBP (*level IV*) = CBP (*level III*) – Departments period expenses.

9. Determination of raw profit contribution (*level five*):

CBP (*level V*) = CBP (*level IV*) – Activity sectors period expenses.

10. Determination of the final result: Final result = CBP (*level V*) – Management period expenses.

Stage	Debit		Credit
1. Registration of production variable expenses:	921.01 "Variable production expenses"	=	901 „Internal offset for expenses and revenues"
2. Registration of marketing and sales variable expenses:	921.02 „Variable sales expenses"	=	901 „Internal offset for expenses and revenues"
3. Registration of period expenses:	924.01 „Period product expenses" 924.02 „Period place expenses" 924.03 „Period departments' expenses" 924.04 „Period marketing and sales expenses" 924.05 „Period management expenses"	=	901 „ Internal offset for expenses and revenues"
4. Registration of semi variable expenses:	923 „Semi variable expenses"	=	901 „ Internal offset for expenses and revenues"
5. Registration of separation of semi variable expenses in: variable and period.	921.01 "Variable production expenses" 924.02 „Period place expenses"	=	901 „ Internal offset for expenses and revenues"
6. Registration of revenues afferent to sale production:	901 „ Internal offset for expenses and revenues"	=	931 „Revenues from the obtained production"

Stage	Debit		Credit
7. Calculation and registration of standard production variable expenses afferent to whole fabricated production:	9445 „Finite products"	=	902 „ Internal offset for obtained production"
8. Offset effective production variable expenses:	902 „Internal offset for obtained production"	=	921.01 "Variable production expenses"
9. Registration of standard production variable expenses afferent to sold out quantity:	931 „Revenues of obtained production"	=	9445 „Finite products"
10. Registration of deviations from standard production variable expenses:	931 „Revenues of obtained production"	=	9448 „Product cost differences"
11. Registration of standard marketing and sales variable expenses afferent to whole fabricated quantity:	9445 „Finite products"	=	902 „Internal offset for obtained production"
12. Offset effective marketing and sales variable expenses:	902 „ Internal offset for obtained production"	=	921.02 „Variable sales expenses"
13. Registration of standard marketing and sales variable expenses afferent to sold out quantity:	931 „Revenues of obtained production"	=	9445 „Finite products"
14. Registration of deviations from standard marketing and sales variable expenses:	931 „Revenues of obtained production"	=	9448 „Product cost differences"
15. Registration of cost differences afferent to products, at the end of the month:	9448 „Product cost differences"	=	902 „Internal offset for obtained production"
16. Registration of price differences afferent to sold out quantities based on it allocation coefficient:	931 „Revenues of obtained production"	=	9448 „Product cost differences"
17. Registration of raw profit marketing and sales contribution:	931 „Revenues of obtained production"	=	903 „Internal offset regarding raw contribution"
18. Registration offset product period expenses:	903 „Internal offset regarding raw contribution"	=	924.01 „Period product expenses"
19. Registration offset period expenses afferent to expenses places:	903 „Internal offset regarding raw contribution"	=	924.02 „Period place expenses"
20. Registration offset departments period expenses:	903 „Internal offset regarding raw contribution"	=	924.03 „Period departments' expenses"
21. Registration offset marketing and sales period expenses:	903 „Internal offset regarding raw contribution"	=	924.04 „Period marketing and sales expenses"
22. Registration offset period management expenses:	903 „Internal offset regarding raw contribution"	=	924.05 „Period management expenses"
23. Registration of obtaining result:	901 „Internal offset for expenses and revenues"	=	903 „Internal offset regarding raw contribution"

C. Variable costs method. Period expenses covering calculation

Termed as "total calculation" it consists in determination of the final result and product rentability in a form much more detailed through allocation of period expenses on every level, including product unity general management expenses, in function of the raw profit contribution, starting from the evolved variant of the mentioned method.

The raw profit contribution determined at different organizatoric levels represents a very important supplementary information source in making decisions by the enterprise management because it shows in which measure the period expenses that are coming back to each product integral covered or not, creating this way profit, respective loss.

The stages that are passing through registration in the managerial accounting are:

1. Determination of product and enterprise marketing and sales:

$$D_i = Pv_u \times Q_i,$$

where:

D_i = marketing and sales afferent to „i" product;

Q_i = quantity afferent to „i" product;

Pv_u= unitary marketing and sales price afferent to „i" product.

2. Determination of production variable expenses:

$CHV_P = CHV_{PS} + \Delta_{PS}$,

where:

CHV_{PS} = standard production variable expenses;

Δ_{PS} = deviations from the standard production variable expenses.

3. Determination of raw profit production contribution:

$CBP_{PROD} = D_i - CHVp_i$,

where:

$CHVp_i$ = production variable expenses afferent to „i" product.

4. Determination the percentage of marketing and sales ($\%D_1$):

$$\%D_1 = \frac{CBP_{PROD}}{Desfacere} x100,$$

where:

CBP_{PROD} = raw profit production contribution.

5. Determination of marketing and sales variable expenses:

$CHV_D = CHV_{DS} + \Delta_{DS}$,

where:

CHV_{DS} = standard marketing and sales variable expenses;

Δ_{DS} = deviations from standard marketing and sales variable expenses.

6. Determination of raw profit marketing and sales contribution:

$CBP_{DESF(i)} = CBP_{PROD(i)} - CHV_{Di}$,

where:

CHV_{Di} = marketing and sales variable expenses afferent ot "i" product.

7. Determination of percentage of marketing and sales($\%D_2$):

$$\%D_2 = \frac{CBP_{DESF(i)}}{Desfacere} x100,$$

where:

$CBP_{DESF(I)}$ = raw profit marketing and sales contribution (level I).

8. Determination of allocation percentage of the product period expenses:

$$\%CHfixe_n = \frac{CHfixe_n}{CBP_{n-1}} x100,$$

where:

$CHfixe_n$ = period expenses afferent to „n" level;

CBP_{n-1} = raw profit contribution of the „n-1" level.

9. Determination of raw profit contribution (*level two*):

CBP (*level II*) = CBP (*level I*) – $CHfixe_i$,

where: $CHfixe_i$ = period expenses of the "i" product.

10. Determination of allocation percentage of the period place expenses:

$$\%CHfixe_n = \frac{CHfixe_n}{CBP_{n-1}} x100,$$

where:

$CHfixe_n$ = period expenses afferent to „n" level;

CBP_{n-1} = raw profit contribution of the „n-1" level.

11. Determination of raw profit contribution (*level three*):

CBP (*level III*) = CBP (*level II*) – Place period expenses.

12. Determination of allocation percentage of the period departments expenses:

$$\%CHfixe_n = \frac{CHfixe_n}{CBP_{n-1}} x100,$$

where:

$CHfixe_n$ = period expenses afferent to „n" level;

CBP_{n-1} = raw profit contribution of the „n-1" level.

13. Determination of raw profit contribution (*level four*):

CBP (*level IV*) = CBP (*level III*) – Departments period expenses.

14. Determination of allocation percentage of period marketing and sales expenses:

$$\%CHfixe_n = \frac{CHfixe_n}{CBP_{n-1}} x100,$$

where:

$CHfixe_n$ = period expenses afferent to „n” level;

CBP_{n-1}= raw profit contribution of the „n-1" level.

15. Determination of raw profit contribution (*level five*):

CBP (*level V*) = CBP (*level IV*) – Period marketing and sales expenses.

16. Determination of allocation percentage of period management expenses:

$$\%CHfixe_n = \frac{CHfixe_n}{CBP_{n-1}} x100,$$

where:

$CHfixe_n$ = period expenses afferent to „n” level;

CBP_{n-1}= raw profit contribution of the „n-1" level.

17. Determination of the final result:

Final result = CBP (*level V*) – General management period expenses.

4. Advantages and disadvantages of the variable costs method

The advantages of the variable costs method are the following:

- Simplicity in calculus effectuation and determination of the unit product costs. Also, is efficient because is providing rapid information to the enterprise management about final result;
- Allows determination and calculation of the specific indicators that helps to analyze cost-volume-profit or price-cost-volume relations, being efficient for making decisions on short-term in the production and marketing and sales policy;
- Allows realization of an efficient control at every enterprise levels and stringent planning of the expenses, responsible performances judgment in function of releasing margin on sectors;
- Abandoning products which variable costs margins are negative and re-orientation to the positive ones and rentability appreciation of different products starting from the variable costs margins.

The limits of the variable costs method are the following:

- The reasoning offered by the variable costs method is valid only on short-term; diminution or suppression of the period expenses intervening only on long-term;
- Is not considering the fact that certain products, which in appearance are profitable, can be large support functions consumers and, in fact, is reflecting in period extremely high expenses.

Notes

(1) Base components can be: materials consume, productive wages and productive wages accessories, other direct expenses, transport expenses, packaging expenses etc.

(2) This thing will be realized with extreme point proceeding based on managerial accounting providing data.

(3) See S. Căpușneanu, „Adaptation of the general accounting plan to the Direct-Costing method in Romania through period expenses covering calculation variant (I)”, *Theoretical and Applied Economics – The Economist*, nr. 424/2004, p. 5.

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The Efficiency of Implementing SOPHRD in Romania – Evolutions and Perspectives

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Abstract. *The background of financial and economic global crisis that affects the Romanian economy and society this year leads to new questions regarding the way the funds allocated to Romania through structural instruments support the process of reconversion/reinsertion/ reintegration on the labour market of persons affected by this recessive trend. The slogan of Lisbon Strategy itself on "knowledge based society" determines us to tackle on the problem of the efficient use of structural and cohesion funds allocated to Romania for the programming period 2007-2013, in an equation cost-benefit with positive results for all the social levels. In this way, the expectancies related to the profitable effect of the infusion of Community funds in the human resources development sector should take into consideration the fact that the results will not appear "sine die" as a linear result of the financial forecasts, being necessary to structure, boost and strengthen the whole process specific for the technical and financial management up to the project level. Knowing the genesis of structural instruments in the united Europe after the Second World War gives an important scientific landmark taking into consideration that the current crisis is the most serious phenomenon of recession in the last 60 years in the world. Measures that proved the efficiency in the past decades in some Member States are also valuable elements for positioning Romania in implementing SOPHRD and ensure the premises for perspective guidelines in running future actions in this area. The analyse of the results registered in the first 18 months from the implementation of SOPHRD in Romania offers the informational support for the fundamental of accelerated support measures for the absorption process of Community funds with a view to overcome the crisis we are dealing with. The analyse of labour market and occupational crisis in Romania with a view to identify some possible solutions for overcoming it may be done only in the context of analyzing the situation to the European level and in close connection with the process of the integration of our country in the European Union.*

Keywords: European funds; SOPHRD implementation; occupational crisis.

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JEL Codes: J62, M54.
REL Codes: 12C, 12I.

I. The historical background of the European funds in European Communities

The historical foray regarding the genesis of European structural instruments reminds us that the Second World War brought again into discussion the idea of creating a social and clear of wars Europe, supporting consciously the European perspective (United States of Europe) in reconstructing democracy.

1951-1957

Europe has received, in the years after the Second World War, help from the United States under the *Marshall Plan for the European Recovery Program* for readjusting the infrastructure, the education and training. Thus, one of the results of the ECSC Treaty was the establishment of a "fund to support workers from the coal and steel industry to acquire qualifications on the job to keep up with the modernization of industries or with the change to new ways of production and, if failure, to allow them to look for an employment in other industries or other geographical regions" (European Communities, 2007, p. 11). From this perspective, it is considered that the ECSC Fund for professional reconversion and relocation of workers was the predecessor of the European Social Fund (ESF). The Treaty establishing the European Coal and Steel Community from 1951 is also appreciated to have some elements of social policy.

1957-1960

The statements and action areas of the *European Economic Community Treaty* from 1957 had in this area most of all declarations of intention unintended, focusing principally on counterattack measures of the existing constraints regarding the mobility of workers and employees in the European Communities.

1960-1970

European Social Funds have been established in 1960 and financed mostly measures of requalification and reallocation. Up to the mid of 1970s, this type of financing was the most important activity of the European social policy.

1970-1980

In 1970 it was adopted the need to create a European network for the coordination of the social security legislation to the level of states, ensuring that the citizens (men and women) can freely move in the Community. If they work in another Member State the European citizens can not be treated differently from the citizens of the country concerned, no matter the sex of the person who deploys working activities. The requirements to have social security from a legal point of view may be considered partially because of the coordination of national state systems (through pensions, employment benefits, health insurances but not social support also). In 1974, the first European Community Social Action Program was implemented. The social policy programs were as a rule connected to norms of general competence (art. 100 and art. 235 of the EEC Treaty) and supposed decisions in unanimity in Council. The objectives of the Social Action Programs had references to the protection of total employment, improvement of life and work conditions of workers with a view to equality. It was also brought into discussion the increasing of social partners' participation to the social and economic decisions as well as the role of workers in establishing the "destiny" of the enterprises they worked in. In this sense, the problem was not to connect the declarations of intention but to install the Keynesian spirit of the global effort. The main interest aspects of the European policy more concrete after the 1970s were the specific action programs regarding the protection of security and health at the work place, rules for coordinating the social security of migrant workers and promoting equal opportunities for women. The European policy for equal opportunities had an important contribution in raising awareness and in legislative changes in the conservative parts of the Member States.

1980-1985

The Eurosclerotic stage was marked by a general stagnation in the integration process and by an increase of re-nationalizing of the economic policy. The fundamental of the changes in the exploitation economic conditions lead finally to an economic and social development model of social structure – Keynesian corporate liberalism. More of that, the new British government lead by Margaret Thatcher blocked any form of progress of the future development of social action programs and harmonization of European legislation. The Commission chaired by Jacques Delors in 1984 could have boosted through an initiative the dialogue between social partners at European level. Apart from this remains the idea of installing a social partnership at European level which could open later on the way to a collective system of agreements, but besides some discussions and declarations on the subject nothing concrete happened. The employers and trade unions refused to be the burdensome part in this problem at the European level. The work conflicts and salary policy existed already at the beginning of 1980s and moved fast towards firms sector.

1986-1990

Starting with the *Single European Act* in 1986 it was initiated a profound remodeling of the European integration by taking into consideration the "method of integration based on the competitiveness of state", which was based on the whole European strategies of reduced costs, having as target the benefit of enterprises and promoting thus the European competitiveness and the elimination of some duties of state (liberalization and privatization of public or state dependent services such as energy, railways, post, telecommunications, etc). The project of common market was based on the principle of organized competitiveness (mutual recognition of standard products, low harmonization of the provisions corresponding to the European level, competitiveness between tax systems and benefits of national states). Because the economic and monetary union as well as the financial regime was subjects of interests, competitiveness and financial policy played a principal role. The so called convergence criteria of the Maastricht Treaty were mainly oriented towards the fight against inflation and especially towards the reduction of budget deficit and national debts. The public expenses perceived as being consummative were also the subject of the pressure of the measures taken. Inside the monetary union the salaries were left apart being necessary their variability to be adjusted, the policy of exchange rates being thus eliminated. The same philosophy represented the essence of establishing an integrated financial market. The integration model based on the state competitiveness put constantly pressure on the national states and undermined increasingly their bases (the disappearance of not ensuring homogenous work and life risks through work segmentation and flexibility, increasing special employment forms such as the time of working contract, minimal jobs, part-time jobs).

From this perspective it seems paradoxically the fact that the European Contracts from 1986 were reevaluated symbolically and gradually. The Single European Act put a great accent on the objective of social cohesion (article 130 a end e) and tried to offer substance by extending to the European structural and regional funds. Article 118a of the European Community Treaty introduced the principle of majority decisions in the Council regarding the problems of the working environment (especially work protection and health at the work place). Then, the president of the Commission, Jacques Delors, wanted to offer a dimension more social to the internal market, but he didn't succeed. Article 118b consecrated only the social dialogue (the possibility of the participation of the employers and trade unions to the social structure in the internal market). The Community Charter of the Fundamental Social Rights adopted by the European Council of Ministers in 1989 (without the participation of Great Britain) did not establish any obligation and moreover it still indicated the state as principal responsibility in the social policy.

1991-1997

The Maastricht Treaty regarding the establishment of the European Union in 1991 did not bring essential innovations in the social policy, but an interesting legal exception. Because Great Britain had refused any integration of the social policy regarding the contractual level, the other 11 states adopted the so called social protocol known as the Maastricht Treaty on social policy, establishing the subjects of the state social policy, most of them being under the regular legislative competence:

- minimum standards for working conditions (which could be adopted with qualified majority);
- social security, protection against dismissal and information and consulting rights for working persons (unanimous vote);
- social dialogue for social partners that allows contractual relations that include the conclusions of the agreements at the European level.

Thus, in 90s many modifications of the old guidelines were registered, some of them having minimal social standards in the internal market, such as:

- protection of labour and health (the use of vehicles, computers, etc.);
- general conditions of the labour contract (maximal working time, holydays, night tour, atypical working relations, working relations described in contracts);
- equal opportunities for women

(equality of salaries, general equal treaty, the burden of manifesting the work capacity);

- the crisis of firms (transition property/ management, massive lay offs, insolvency);
- protection for the activity of mothers and young persons;
- participation of workers and employees.

The European Social Fund extended his covering area. In 1980s the main objective was referring to employment and reinsertion of young unemployed. Most of the funds were canalized towards the poorest states. *The Delors package* (1998 and 1992) increased and extended the application of the means of structural funds. In this perspective the funds focused mainly on the fight against long term unemployment, integration of the young persons on the labour, adaptation of the labour force to the structural industrial change and associative measures for the renewal of the traditional industrial regions.

The social dialogue extended and possible between two European partners, trade unions and the European Confederation of Trade Unions allowed the adoption of some common declarations or some agreements on some subjects. The agreements negotiated between social partners could have been transformed by the Council, after the Commission's proposal, into guidelines.

This was the case of the EU Agreement of Social Partners regarding the parental holidays and the part time activity.

The concepts of minimal social standards in the EU internal market bear witness to an incontestable fact: the capacity of economic performance and the constitutions of social state of welfare in EU Member States are very different. In a very large majority the principles of European social policy are dominated by the principle of the smallest denominator. Compared to the standards of social policy and work in the most developed states (for example Sweden, Denmark, RFG), the European norms were rather limited. The exceptions are established maybe by the preventing principle consecrated by the European legislation regarding the working environment, computer working norms and the policies on women equal opportunities.

1997-2000

In 1997 the government of Tony Blair eliminated the Britain option of not participating to the social policy. The Treaty of Amsterdam had a separate title – Title VII Employment, being thus possible to coordinate the national employment policies on the basis of European guidelines. Member States were obliged to elaborate Action Annual Plan regarding the way these principles are implemented which have been accompanied however by irrelevant recommendations.

In the same time, a new title, *Title XI Social policy, general and vocational education and young persons*, defined new areas of integration in the Treaty by including some subjects such as work protection and health at the working place, working conditions, vocational insertion; equal opportunities between men and women on labour market, equal treatment at the work place and equality of salaries without discrimination based on sex; social security and social protection of persons who work, information and counseling of persons employed, collective negotiation, promoting employment and others. The new article 13 of the *Treaty of Amsterdam* allowed for the first time the adoption of legislative initiatives and other EU measures of fight against discrimination no matter the sex, race, ethnicity, religion and opinions on world, handicap, age and sexual orientation.

As a result of the *Treaty of Amsterdam*, the following subjects of the social policy became subjects of the majority decision in the Council:

- principles of employment policy;
- improvement of working conditions (protection and employment security at the work place);
- working conditions;
- information and counseling of persons employed;
- equal opportunities between men and women on the labour market, equal treatment at the working place and equal indemnifications for equal and equivalent work;
- provisions for achieving the objectives of European Social Funds.

For other problems the rule of unanimity was still functioning. The problems of work indemnity, league and strike were still excluded. In the field of fighting against social marginalization, the Council offered the right to initiatives which could interest the cooperation between Member States regarding the improvement of knowledge, exchange of information and proper procedure for promoting innovative approaches and evaluations carried on.

2000-2010

Year 2000 represents a major moment in the evolution of social policy through the adoption of two complementary directions of action, i.e. “knowledge based economy” and “open method of coordination”.

Through the elaboration of *Lisbon Strategy* it is established to the EU level, on ten years, the objective of transforming the Community economy in the most competitive knowledge based economy. In the same year it was adopted the *Social Policy Agenda* which takes over specific objectives and elements of strategy that deal with social policy and transform them in an action plan over a period of five years, which constitute the framework of the current social policy.

The procedure defined as “open method of coordination” was implemented after the EU Lisbon Summit (2000) as a more general cooperation instrument in different areas starting from the point that interest aspects (such as for example fighting against social exclusion) to the level of national state remains first responsible. Coordination at the European level involves first of all gathering information and analyzing by comparing the practices recorded at the level of Member States. On this basis significant indicators can be established that may allow more systematic comparisons between Member States.

Open method of coordination will be completed by the strengthening of the guidance and coordination role of the European Council that examines during the meetings the social economic problems and simultaneously follows the progresses recorded for ensuring the global coherence. In this perspective it was underlined the necessity of an interconnection between economic, social and employment policies (Cace, 2004).

In a subsequent stage the principles and general objectives or the guidelines more concrete of the European coordination may be adopted by the Council that will determine Member States to commit themselves in the implementation of the national plans. Regarding the fighting against social exclusion the Council decided for some principles and objectives very general by the commitment of Member States in two years action plans. On the basis of the experiences achieved by implementing the national action plans a common and mutual evaluation is elaborated, the open method of coordination being thus defined as an unacknowledged legal procedure and not leading to sanctions if the objectives have not been achieved or have been inadequately achieved. It is also an indirect method of consultation at the European level which underlies on the common elaboration of the guideline model and European objectives. Member States are subject of pressure because their governments must answer to other states, Commission and media, regarding the measure their policies correspond to the European models. Shortly, "the black sheep" can be identified in the European steering process.

EU Treaty of Nice (2001) modified again the provisions of European social policy, listing the following areas of intervention:

a) improvement, especially of the working environment by protecting health and security of working persons;

b) working conditions;

c) social security and social protection of working persons;

d) protection of workers and employees if the working contract terminates;

e) information and counseling for employees;

f) representation and collective perception of the interests of working persons and of employers, including the co-determination rights, subject of paragraph 5;

g) employment conditions of citizens from the countries of the third world who are legal residents of the Community;

h) employment integration of persons excluded from the labour market, no matter the article 150 (additional measures for vocational education);

i) equal opportunities between men and women on the labour market and equal treatment at the work place;

j) fighting against social exclusion;

k) modernization of the social protection systems.

In all these areas of intervention the Council can decide initiatives in agreement with the open method of coordination when the European harmonization of the legal provisions is explicitly excluded. In the areas of intervention a)-i) the Council can in addition adopt guidelines with minimal provisions. These minimal standards should not prescribe administrative, financial and legal limits that enclose the beginning and development of some small and medium business. As a rule it is decided the adoption with a qualified majority, excepting the areas c), d), f) and g).

The EU Summit of Nice passed and *the EU Charter of Fundamental Rights* only as a solemn declaration without judicial implications. *The Charter* includes economic and social fundamental rights that will bound the European institutions and the European policies in all the areas, being planned to be followed as an individual basis in front of the European Court of Justice.

II. European good practices in managing European Social Fund

As a conclusion of the successive stages regarding the harmonization of the European social policies by establishing some financing schemes under ESF it is interesting to keep in mind a simplified chronology of these steps and further on to present some examples of good practices recorded in some EU Member States.

Chronological table on the European evolution of structural instruments

Table 1

Period/Year	Action
1957	The signatory states of the Treaty of Rome specify in the preamble the necessity to "strengthen the unity of their economies and to ensure the harmonious development by reducing the differences between various regions as well as the disparities that the regions less favoured deal with".
1958	Establishment of two sectoral funds: European Social Fund (ESF) and European Agricultural Guidance and Guarantee Fund (FEOGA).
1975	Establishment of the European Regional Development Fund (FEDR) for redistributing a part of the Member States budget contributions to less-favoured regions.
1986	Single European Act creates the basis for a real cohesion policy meant to compensate the taxes imposed on the single market and felt in the South countries and in less-favoured regions.
1989-1993	Brussels European Council rephrases in February 1988 the functioning of the Solidarity Funds, called "Structural Funds" and decides to allocate 68 milliards ECU (prices at the level of the year 1997).
1992	The Treaty on European Union entered into force on 1993 considers the cohesion as being one of the essential objectives of the Union along with Economic and Monetary Union and Single Market. The Treaty stipulates the establishment of a Cohesion Fund for supporting projects for environment as well as the transport sector in less favoured Member States.
1994-1999	Edinburgh European Summit (December 1992) allocates for the cohesion policy almost 200 milliards ECU (prices at the level of the year 1997), i.e. one third of the Community budget. A new Financial Instrument for Fisheries Guidance completes the Structural Funds. Berlin European Council (march 1999) reforms the Structural Funds and modifies the functioning of the Cohesion Fund. These Funds will benefit of more than 30 milliards of Euro per year between 2000 and 2006, i.e. 213 milliards of Euro on seven years. The Pre-Accession Structural Instrument and the Special Pre-Accession Programme for Agriculture and Rural Development (SAPARD) complete the Phare Programme from 1989 for supporting the economic and social development as well as the environment protection in the candidate states from the Central and Eastern Europe.
2000-2001	Lisbon European Council (March 2000) adopts a strategy focused on employment and meant to transform the Union in the "most competitive and dynamic knowledge based economy from the world until 2010". The Goteborg European Council (June 2001) completes this strategy by connecting it to the sustainable development.
2004	On 18 of February the European Commission presents the proposals for the reform of the cohesion policy for 2007-2013: "A new partnership for cohesion: convergence, competitiveness, cooperation".
2005, 28 January	Last statistics at regional level that confirm the Commission 's proposals on 2007-2013 Structural Funds.
2006 January	The European Council Agreement on financial perspectives: Implementing the cohesion policy 2007-2013.

Source: Ministry of Administration and Interior, Public Administration Reform Unit, *EU Structural Instruments*

Structural Funds and *the Cohesion Fund* are the financial instruments of the Community social and economic cohesion policy, which support the reduction of the disparities between the development levels of EU Member States different regions(1). The general rules regarding Structural and Cohesion Funds are established by the *Regulation of the European Union Council no. 1083/2006* which defines general rules regarding the *European Regional Development Fund, European Social Fund and Cohesion Fund.*

In financial terms these instruments have the second place as weight in the EU budget for European policies. These are:

- *European Regional Development Fund (ERDF),* established by *the Regulation* *no.1080/2006 of the Council and European Parliament*, supports the sustainable economic development at regional and local level by the mobilization of the local capacities and the diversification of the economic structures in areas such as research and technological development, innovation and entrepreneurship, informational society, SMEs, environment protection, tourism, energy;

- *European Social Fund (ESF),* established by *the Regulation no.1081/2006 of the Council and European Parliament*, supports the increase of the adaptability of the labour force and enterprises, the increase of the access on the labour market, prevent of unemployment, prolong of active life and the increase of the participation level of women and migrants on the labour market, supports social inclusion of disadvantaged persons and fights discrimination.

- *Cohesion Fund*, established by *the Regulation no.1084/2006 of the European Union Council* finances projects in the field of environment protection and transeuropean railway networks, sustainable development as well as projects that aim at improving the management of the road and air transport, modernization of the urban transport and modernization of the multimodal transport.

During 28-29 of June 2007, in Postdam, it was celebrated half of century from the signature of the Treaty of Rome as well as 50 years of "investing in people" of European Social Fund. Further on, it is necessary to present some of the success results of the decades of the half century mentioned above. Thus, in the table below we synthesized the main aspects of the labour market in the European Communities:

Success initiatives recorded in implementing ESF

Table 2

Period	Initiatives/Trends
70s	• ESF opened to a larger selection of employees (agriculture, textile sector) • support for persons who had problems in finding a job in another EC country • supporting the preparatory studies and the innovative pilot schemes for testing new ideas and practices • support for young persons in recruiting and employment • more considerable support for women, other specific social groups, such as elder workers or workers with disabilities (those aged 50 years or more) The period marked the beginning of a process under which the Commission and Member States had to define common priorities within EC and to allocate significant finances to deal with them. The new prior approval system and the approach more structured imposed more controls that could guarantee the fact that the EFS financing was used properly.
80s	• using ESF for training in the field of new emergent technologies • it was eliminated the request that a requalified person must work to an working place associated with the qualification achieved at least 6 months from the end of the vocational qualification period. • in 1983 it was established that the ESF financing should be directed to regions that especially needed them • more than half of the ESF financing were directed to schemes that stimulated the employment in more poor regions and countries as Greece, the French overseas departments, Ireland, Mezzogiorno region from the South of Italy and North Ireland • support for young persons with less perspectives in finding a job because of the lack of vocational training or with inadequately training and also for long term unemployed. The financing included also those who had early left school since a great number of young persons gave up school too early or without having a qualification • ESF reform in 1988 highlighted the importance of integrating "women in occupations where they were underrepresented" The reform from 1988 marked a change from the projects (individual) implemented in a national context to a planned multiannual effort agreed in a partnership between Member States and Commission. As a result of the reform, ESF will approach more the needs of regions and Member States.

Period	Initiatives/Trends
90s	• A larger number of persons could find a job, to increase the occupational level of women, number of children care units and to encourage the entrepreneurship spirit • adaptability was another important dimension, its objective being the capacity of an employee to adapt to new activity areas, if needed. • ESF allocated 5% from its budget to finance innovative schemes (including actions and pilot studies, transfer and dissemination of good practices) in order to evaluate the efficiency of the projects financed under ESF and to support exchange of experience between Member States with a view to promote innovation in all Europe. • new programs to support young persons without qualification in finding a job, to support groups such as single parents, homeless, refugees, offenders and ex-offenders in finding a job and for fighting against racial discrimination or other form of discrimination in training or employment, as well as supporting persons to accommodate to the changes from the business environment or industry such as training in the field of information technology • funds allocation for the on the job training of elder persons to allow them to remain employees or to bring them back on the labour market • ESF contributed with subventions for the use of the children care centers so that if a mother had to participate in a three days training ESF supported the crèche expenses. Although it remained high at the beginning of the decade, the unemployment decreased up to 15.9 millions until 1999, a decrease of almost 3 millions. Moreover the EU labour force increased with 9 millions between 1994 and 1999 (from 149 millions to 158 millions of persons).
Beginning of XXI century	• contributions to the educational systems to make them more able to react to the necessities of the labour market. The accent was put on the continuous education and continuous vocational training, including in companies. • development of some active measures on labour market with preventive and job oriented strategies including the increase of the unemployed number who were offered training or similar measures • strengthening the employment potential of all the labour force in services sector and industrial connect services especially in informatics and environment sector • providing a great support to new EU Member States in order to correct the inequalities and to identify their employment policies priorities • administration of migration flux by mean of a coordinate approach that kept in mind the EU economic and demographic situation • supporting the prolong of active vocational life and increasing the employment opportunities for persons aged between 40 and 60 years old through a number of training schemes. • intensifying the working capacity through a larger access to vocational training and improved working conditions • supporting the career development and individual guidance systems such as the introduction of the education regarding the career in the curricula, counseling of the labour force by public employment services, local employment agencies and organizations that offer assistance and counseling for dismissal, training, counseling and apprenticeship for the employees through organizations of continuous training • development of new methods to combat discrimination and the inequalities on the labour market and to promote a larger approach through the fight against discrimination and exclusion on the basis of reasons of ethnic or racial origins, religion or believes, handicap, age or sexual orientation..

Source: European Social Fund, 50 years of investing in people, European Communities, Luxembourg, 2007.

The European Commission elaborates every year a report on the implementation of the structural funds, where it is also specified the absorption level. In March 2005, at almost one year after the integration of the 10 new Member State, the lowest absorption rates were registered in Czech Republic, Lithuania and Slovenia (10%) and the highest in Hungary (15%). Although these dates are public and easy to be accessed on the EU site, the Romanian officials talk about 85 % absorption capacity.

But not only the absorption rates are public, but also the problems the new Member States confronted with in accessing the funds. Thus in the learnt lessons category are included observations related to:

1. the discontinuity pre-accession funds – structural funds;
2. the role of applying the partnership principle;
3. the importance of having a well prepared state administration;
4. role of decentralization.

Structural funds subject is more and more in the center. Many institutions have started even since the beginning of 2007 training campaigns especially for the members of public administration.

The problems generated by the absorption of structural funds, problems that the new integrates states are dealing with, reflect the lack of efficient national policies, low implementation capacity and the lack of experience in developing partnership principles and practices. These leaded, in some of the cases, to the adoption in some Member States of some perspectives rather formal and mechanic than really developing ones. The accent falls on procedure and structure and less on the impact of partnership.

From many points of view these problems do not surprise. The challenges of development associated to the absolute poverty and social exclusion that regions such as East Slovakia (where the roma population is the majority) but also the North East Development Region or the Russian speaking minorities from Estonia or Lithuania deal with can go beyond the problems that the structural funds should solve.

The diversity of approaches regarding the definition and scope of the "activation" policies is large enough (Raveaud, 2001). But these seemed to become a way of agreement between Member States and Commission regarding the necessity to "activate" the unemployed persons, along with other researches in this field (Abrahamson, 2000). It can be possible to identify an "ideological convergence" in these policies that consists in: portraying the unemployment as a fact for which the individual is responsible. Thus, the individual is responsible for the risk administration (for example losing the job) and the risk is seen as an inevitable fact in life. (Pascual, 2003, p.153)

This current is in line with the *Third Way Manifesto* concept that intends "to promote a new entrepreneurship spirit at all the society levels". For other authors the scope is not protecting people from risks, but "transforming the security determination networks in a beat board towards personal responsibility" (Blair, Schroder, 1999).

But even in this case how can the EU responsibility within these developments be more clearly defined?

Serrano Pascual admits that "European institutions are not seen as playing an important role (Pascual, 2003, p. 162) in implementing such policies". In this way, the role of Union should not be underestimated because the European Employment Strategy is to promote a certain diagnosis of the problem (interpretation and causes), the principles of legitimacy, the targets of intervention and the role the state must play (*Ibidem*, p. 151). This perspective is now strengthening by the complete strategy integration in the Union large policy.

III. Preparing steps for European Social Fund in Romania on pre-accession period

Before starting the integration negotiations with EU, it was appreciated that "Romania registered an accentuation of the existing disproportions compared to EU Member States regarding the employment structures. The most worrying evolution resides in the migration of the qualified active population towards activities and commitments that require a lower vocational training level, towards the underground economy or agriculture" (Stanciu, 1996, p. 69).

The employment was considered as a prior objective and efforts have been done for adapting the Romanian system for the implementation of the European Employment Strategy. Thus in 2001 it was elaborated the first Action Plan for Employment (PNAO) accompanied by the Programme for stimulating the employment and reducing the unemployment which transposes the Resolution no 99/312/EC regarding the employment guidelines.

In order to prepare for participating to the European employment market and to the revision process of the employment policy, the Romanian Government and the European Commission signed in 2002 a Joint Document for the Evaluation of the Employment Priorities in Romania.

Romania aligned to the revised European Employment Strategy, the essential instrument for the coordination of the priorities in the employment area al the EU level, thus being elaborated the two PNAO 2002-2003 and 2004-2005. One of the European objective for the continuous vocational training development in Romania is that until 2010 the medium level of participation to the lifelong learning education for persons aged between 24-64 years to be 12.5%; in order to realize this objective it is necessary to elaborate coherent strategy and pragmatic measures for stimulating the permanent education for all.

The actions are carried on by the National Agency for Employment (NAE) and monitored by performing indicators provided by the local agencies for employment. The actions carried on in 2001 and the objectives established for 2002 aim at strengthening the Employment Strategy for 2002-2004, integrated part of the employment and social protection strategy elaborated by the Ministry of Labour, Social Solidarity and Family. As a result of the conclusions taken by NAE from the PNAO implementation a serial of normative acts for creating new jobs and stimulating the mobility of the labour force have been elaborated.

Thus the Law no. 76/2002 on the unemployment insurance system and employment stimulation and the Government Decision no. 174/2002 on the methodological norms for applying the Law no. 76/2002 on the unemployment insurance system and employment stimulation stipulate the increasing of the importance of active measures for fighting against unemployment, financial support for enrolling the unemployed, advantaging loans for SMEs. The Government Decision no. 759/2002 on the National Plan for Employment was also adopted.

Active measures on labour market

Table 3

■ information and vocational counseling;
■ working mediation;
■ vocational training;
■ guidance and assistance for starting an independent activity or a business;
■ stimulating the labour force mobility;
■ jobs subsidies;
■ stimulating the employers for hiring graduates;
■ subsidies for employers who hire persons aged over 45 years or monoparental families and for employers with less than 100 employees who hire persons with disabilities;
■ advantaging loans from the unemployment insurance budget;

Source: Law no. 76/2002.

The European Commission appreciated in the Country Report for 2003 that:"*new labour code incorporated the essential principles of the acquis in this area, but there are still some necessary adjustments to be done*", as well as "*an important part of the acquis should be implemented through the secondary legislation*".

In the European social policy field we can talk now about four common challenges that Romania as well as the other EU Member States has:

- improving the employment performances;
- reconciliation between the imperative of the economic competitiveness and the social welfare;
- adaptation to the technical progress – industrial restructuring and the optimal work organization;
- solving the disequilibrium created by the ageing population process – the consequences of the ageing population are devastating for the financing of the pension system.

We should not forget the fact that at the EU level we can also talk about three important imperatives: constructing a Europe for citizens; the success of the EU enlargement, the reconciliation of the Economic and Monetary Union with the economic and social cohesion.

IV. Recent evolutions in implementing SOPHRD

SOPHRD was elaborated in line with the Community Strategic Guidelines on Cohesion, the Lisbon Strategy on growth and jobs and taking into account the *Council Regulation (EC) no. 1083/2006* laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund, the *Council Regulation (EC) no. 1081/2006* on the European Social Fund, the *Commission Regulation no. 1828/2006* setting out rules for the implementation of *Council Regulation (EC) no. 1083/2006* laying down general provisions on the European Regional

Development Fund, the European Social Fund and the Cohesion Fund. *"The general objective of SOPHRD is the development of human capital and increasing competitiveness, by linking education and lifelong learning with the labour market and ensuring increased opportunities for future participation on a modern, flexible and inclusive labour market for 1,650,000 people"* (*The Framework Document for the Implementation of Sectorial Operational Programme Human Resources Development 2007-2013*: 2009, p. 2).

SOPHRD 2007-2013 was adopted by the EC Decision no. 5811/22.11.2007, the date the implementation of the Programme started.

Sectoral Operational Programme Human Resources Development is structured on 7 Priority Axis and 21 Key Areas of Intervention, presented in the table below:

Priority axis and key areas of intervention under sectoral operational programme human resources development

Table 4

Priority axis	Key areas of intervention
1. Education and training in support for growth and development of knowledge based society	1. Access to quality education and initial VET; 2. Quality in higher education; 3. Human resources development in education and training; 4. Quality in CVT; 5. Doctoral and post-doctoral programmes in support of research.
2. Linking life long learning and labour market	1. Transition from school to active life; 2. Preventing and correcting early school leaving; 3. Access and participation in CVT.
3. Increasing adaptability of workers and enterprises	1. Promoting entrepreneurial culture; 2. Training and support for enterprises and employees in order to promote adaptability; 3. Development of partnerships and encouraging initiatives for social partners and civil society.
4. Modernizing the public employment service	1. Strengthening the PES capacity to provide employment services; 2. Training of the PES staff.
5. Promoting active employment measures	1. Developing and implementing active employment measures; 2. Promoting long-term sustainability of rural areas in terms of HRD and employment.
6. Promoting social inclusion	1. Developing social economy; 2. Improving the access and participation of vulnerable groups to the labour market; 3. Promoting equal opportunities on labour market; 4. Trans-national initiatives for an inclusive labour market.
7. Technical assistance	1. Support for SOP HRD implementation, overall management and evaluation; 2. Support for communication and promoting SOP HRD.

Source: The Framework Document for the Implementation of Sectoral Operational Programme Human Resources Development 2007-2013, version 3, February 2009-2013.

The institutional structure for SOPHRD is regulated by the G.D. no. 457/2008 (MO no. 364/13.05.2008) on the institutional framework for the coordination and management of the structural instruments that established the general functions of the MA and IBs for the SOPHRD implementation accordingly to the European Regulations (ESF Regulation no. 1081/2006, General Regulation no. 1083/2006 and Implementation Regulation no. 1828/2006).

The annual implementation reports and the final report

According to the Community provisions MASOPHRD will submit to the European Commission every year starting from 2008 an annual implementation report and a final report after the completion of the programming period. The responsibility for elaborating these reports is to the MASOPHRD in collaboration with the nominated Intermediate Bodies, reports approved by the Monitoring Committee.

The implementation reports should include the following:

▪ the progress realised in the implementation of SOPHRD and its priorities compared to the established indicators – the stage of the projects implementation;

▪ the financial implementation – the breakdown on each priority axis of the paid expenditures, their breakdown on national contribution and ESF contribution;

▪ the stages followed by MASOPHRD and the Monitoring Committee in order to ensure the quality and efficiency of the implementation, especially:

▪ the monitoring and evaluation measures, including the data collection arrangements;

▪ a summary of all the difficulties meet in the implementation and all the taken measures;

▪ the manner of using the technical assistance;

▪ the measures taken for the publicity achievement and the information provision regarding SOPHRD;

▪ a declaration on the observance of the Community regulations regarding the implementation of SOPHRD;

▪ the progress in financing major projects.

The evaluation of SOPHRD

The evaluation of SOPHRD will be carried on according to the EC General Regulation no. 1083/2006, with a view to improve the quality, the efficiency and the consistency of the Community assistance and the implementation of SOPHRD.

Three types of SOPHRD evaluations will be carried on: *ex ante, mid term* and *ex post.*

A. Ex ante evaluation

The scope of the ex ante evaluation is to optimise the allocation of the resources and to improve the quality of the Programme. Within the evaluation it will be identified and evaluated the necessities on medium and long term, the objectives to be achieved, the expected results, quantified by the SOPHRD indicators, the coherence of the proposed strategy with the priorities declared at the Community level, the quality of the procedures for the implementation, monitoring, evaluation and financial management. All these will be evaluated according to criteria that attest the relevance, the efficacy, efficiency and the durability of SOPHRD.

The ex-ante evaluation of SOPHRD was carried on within the project PHARE RO 2004/016-772.04.03.01.06-Europe Aid/121373/D/SV/RO "Ex ante evaluation".

B. Mid-term evaluation

The mid-term evaluation will be carried on at the middle of the programming period (in 2010 at the latest) and will evaluate the progress in relation with the arrangements and objectives initially established. The mid term evaluation of SOPHRD will be carried on by independent evaluators within projects financed under the SOPHRD Technical Assistance Priority.

C. Ex post evaluation

The ex post evaluation will be carried on under the responsibility of the Commission in collaboration with the MA that will provide all the necessary information.

The evaluation will be carried on by independent evaluators and will focus on the way the allocated funds have been used, the efficiency and the efficacy of the ESF programming, the socio-economic impact on the Community priorities.

MASOPHRD will provide all the information requested by the European Commission for carrying on the ex post evaluation until the 21 of December 2015 at the latest.

The ongoing of the SOPHRD implementation process

In 2008, 72 Applicant Guides were elaborated for the financing lines launched in there stages, guides approved by orders of the minister of work, as follows:

- 16 Applicant Guides for call for proposals for strategic projects(2) launched on 15 of February 2008, approved by Order of minister of labour, family and equal opportunities no. 100/14 of February 2008;
- 38 Applicant Guides for call for proposals for grant projects(3) launched on 16 of April 2008 approved by Order of minister of labour, family and equal opportunities no. 295/15 of April 2008;
- 18 Applicant Guides for call for proposals for strategic projects launched on 8 of July 2008 approved by Order of minister of labour, family and equal opportunities no. 409/25 of June 2008.

The 72 calls for proposals launched in 2008 during the three stages mentioned above had a total financial allocation of almost 1.18 milliards Euro(4).

On the 15 of February 2008, in the presence of the European Commissioner for Employment, Social Affairs and Equal Opportunities, Mister Vladimir Spidla, at a conference organized at national level, the first call for proposals for strategic projects were launched, opening thus 16 financing lines for PA 1-6 under SOPHRD, with an allocated budget of almost 431 millions Euros. Later on, on the 16 of April 2008, in the presence of the representatives of the EC General Directorate Employment, Social Affairs and Equal Opportunities, 38 financing lines were launched and on 8 July 2008, 18 financing lines were opened through a new launching of call for proposal for strategic projects with an allocated budget of almost 451 millions Euros.

The following results were registered at the level of 2008:

- 2.482 submitted projects with a value of almost 2.4 milliards Euro non-reimbursable financing;
- 757 evaluated projects with a value of almost 795 millions Euro non-reimbursable financing;
- 254 selected projects (out of which 2 projects have been withdrawn) with a value of almost 385.5 millions Euro non-reimbursable financing;
- 2.085 on evaluation projects with a value of almost 1.61 milliards Euro non-reimbursable financing;
- at the end of 2008 there have been signed contracts for 110 projects, the list of the beneficiaries whose projects have been contracted up to 31 of December 2008 being available on www.fseromania.ro(5).
- 107 strategic projects with a value of almost 283 millions Euro non-reimbursable financing;
- 3 projects under PA 7 “Technical Assistance” with a total value of 0.54 millions Euro non-reimbursable financing.

As a result of the information and publicity actions organized in 2008 the number of submitted strategic projects launched on 8 July 2008 increased as a share of the total submitted projects on the first stage from 10% to 16% and as a requested value they represent 173% as for the requested value of the strategic projects submitted on the first stage.

The greatest number of strategic projects was submitted after the launching from 8 July 2008 under the PA 3 on the adaptability of workers and enterprises (29%) and PA 6 on promoting social inclusion (22%) and PA 1 on education system (22%).

The categories of eligible beneficiaries under SOPHRD are public institutions, private with patrimonial scope organizations, private without patrimonial scope organizations such as non-governmental organizations, trade unions, employers associations, legally constituted in Romania. Out of the total beneficiaries who signed contracts in 2008 the public institutions represent 72%, out of which 50% are public institutions at central level.

In 2008, 28 projects were contracted which will be implemented with national and transnational partners, with a value of almost 92 millions Euro non-reimbursable financing, out of which 8.9 millions Euro are dedicated to transnational activities and 8 projects with a value of almost 24 millions Euro non-reimbursable financing, out of which 2.3 millions Euro will be used for transnational activities.

Transnational partners involved represent in general organizations without patrimonial scope and education institution from other 11 EU Member States: Austria, Belgium, France, Germany, Greece, Italy, Great Britain, Holland, Portugal, Spain and Hungary.

80% of the projects contracted in 2008 contribute to the promotion of ICT and innovation, to the development of informational society, a society where information and ICT are used on a large scale and at reduced costs, development of knowledge based society for highlightening the fact that the most valuable acquisition is the investment in intangible human and social capital and that the key factors are knowledge and creativity.

In this context, 34% of the contracted projects in 2008 contribute to the promotion of active ageing, comprising activities such as: active implication of the persons aged over 55 years employed in enterprises in assisting the students during their apprenticeships in the transition from school to active life, specific actions for stimulating the entrepreneurial potential of aged persons, involving the aged persons in the structures of social economy with a positive impact on the relations between generations at the local community level. Vocational training programs are also developed, specific for aged persons for promoting the concept of lifelong learning.

Correlating the implementation with the Action Plan for 2008 related to National Plan for Lisbon Reform

In accordance to the EC evaluation on the progresses made by Romania in implementing PNR, the Council formulated four specific country recommendations, including the implementation of an integrated approach for increasing the employment, the activity rate and the productivity levels. The 4 specific country recommendations are: reducing the early school leaving; increasing significantly the participation of adults to education and training; transforming the subsistence semi-subsistence agriculture in a durable employment activity; accelerating the reforms in the education system in order to respond more efficiently to the existing needs on the labour market.

The priorities and financial allocations of SOPHRD are in accordance and support the interdependent objectives of Lisbon Strategy: total employment (increasing the general employment rate to 70%, increasing the employment rate for women to 60% and increasing the employment rate for aged persons to 50%), increasing the quality and productivity of work, strengthening the cohesion and social inclusion. Almost 93.27% of the ESF financial allocation for SOPHRD 2007-2013 supports the objectives of Lisbon Strategy.

SOPHRD contributes to the implementation of the measures established within the Action Plan for 2008 related to PNR, through: supporting the training and managerial qualifications, encouraging the corporative responsibilities by offering incentives to employers, raising awareness among employers and employees regarding the necessity of continuous vocational training, improving the quality of employment services, developing social economy, improving the access and participation of vulnerable groups on labour market, promoting equal opportunities on labour market, strengthening and improving the functioning of education and continuous and initial vocational training systems.

Concerning the EU recommendation to accelerate the reforms in the education system in order to respond efficiently to the existing needs on the labour market, in 2008 there were contracted projects with a value of 33.8 millions non-reimbursable financing under KAI 1.1 on the access to quality education and initial vocational training. Under KAI 1.3 on the human resources development in education and training there were also contracted projects with a value of 21.4 millions Euros non-reimbursable financing, which mean a remarkable investment in these areas referred to the indicative financial allocation for the period 2007-2008.

Regarding the reducing of the early school leaving there are implemented projects with a value of 9.5 millions Euro non-reimbursable financing under KAI 2.1 on transition from school to active life which means an effective investment of a third of the indicative financial allocation for the period 2007-2008. For adequately supporting the recommendation on the reducing of early school leaving, in the next period will be accelerated the investment in reducing early school leaving and the delay recovery regarding the selection and contracting of projects that support the transition from school to active life.

For increasing the participation of adults to education and training, under KAI 1.4 there were contracted projects that support CVT with a value of 13.8 millions Euro which mean that the investment in preparing the CVT quality assurance system is to a level of almost 50% of what was proposed as financial allocation level; the significant increase of the participation of adults to education and training is supported mainly by projects that aim at "second chance" education type for adults, education and entrepreneurial culture and projects that support education and training programs for vulnerable groups, in detriment of projects that support the qualification and re-qualification of the labour force and projects that aim to the specialization and further training of persons on labour market or long term unemployed.

For estimating the progresses recorded in transforming the subsistence agriculture in a durable employment activity, it was invested almost 50% from the indicative financial allocation for the period 2007-2008, which reveals the necessity to continue the investments in human resources from rural area and to accelerate the contracting and the implementation of projects which support this area for contributing to the achievement of the PNR objective.

For realizing the three priorities under SOPHRD and analyzing the situation of the projects contracted in 2008, the following can be concluded:

- Contracted projects that contribute to the SOPHRD priority "Promoting lifelong learning and adaptability of workers and enterprises" have a total value of almost 34 millions Euro, representing 10.11% of the EU financial allocation for PA 2 and 3, for the period 2007-2008. In 2008 there were contracted 18 projects under PA 2 and 3, having a share of 12% of the total value of the contracted projects.
- Contracted projects that contribute to the SOPHRD priority "Promoting active employment measures" have a total value of almost 89 millions Euro, representing 22.02% of the EU financial allocation for PA 4, 5 and 6, for the period 2007-2008. In 2008 there were contracted 35 projects under PA 4, 5 and 6, having a share of 31.57% of the total value of the contracted projects.
- Almost 63.66% of the EU financial allocation under PA 1 for 2007-2008 has been contracted under projects that contribute to the SOPHRD priority "Modernizing the education and vocational training system in support for economic growth and development of knowledge based society". In 2008, 54 projects under PA 1 were contracted, with a total value of almost 170 millions Euros, having a share of 58.4% of the total value of the contracted projects.

As a conclusion, taking in consideration the contribution of SOPHRD to the achievement of the Lisbon Strategy objectives, reported to the total value of the contracted projects in 2008 and the EU financial allocations for 2007-2008, priority 3 of SOPHRD "Education and training in support for economic growth and development of knowledge based society" supported by a contracting rate of 63.66% show a huge investment supported by ESF for the modernization of educational and continuous and initial training system.

V. Perspectives on the efficiency of implementing Sectoral Operational Programme Human Resources Development in Romania

Having an efficient approach in the implementation plan of the SOPHRD supposes taking into consideration the evaluations carried on, the measures and recommendations aimed for this and not at last the importance given by the politic governors.

A. *The recommendations of the ex-ante evaluation*[6] were included in the Programme and the Report of the ex-ante evaluation was submitted with SOPHRD to the EC. Generally, the ex-ante evaluators highlight some specific aspects that need to be taken into account within the analysis and the strategy. These are:

- SOP has almost no prognosis. After approaching the problem of transition from an agricultural and (state) industrial economy to a services economy, there is still a threat for the Romanian economy concerning the human resources sector. This is the *problem of ageing population.*

▪ A greater attention should be paid to the sectorial approach that involves the social partners. The policies from the labour market, technical and vocational education, CVT and maybe the university education sector should be organized according to a differentiate sectorial approach. The development of territorial agreements on employment (combined with the tripartite structure of NAE at county level) need also a special attention in the initial stage of the SOPHRD interventions.

▪ The activities at regional and sectorial level need also a better coordination between different sectorial OPs such as ROP, SOP IEC and SOP agriculture.

▪ A sort of attention can be paid to temporal aspects on the complementary interventions: which activities should be first carried on (for example, teachers and trainers training, strengthening NAE, awareness campaigns with social partners and regional stakeholders, the ulterior development of the qualification system for technical and vocational education, etc.) and what activities should follow? From this perspective it is also useful to analyze the progress registered already under PHARE Programme.

B. The problems registered in 2008 determined the elaboration of a *set of specific measures for each priority axis,* for the efficiency of the activities of launching, evaluations and implementation of SOPHRD applications, aspects synthesized in the table below.

Adopted measures for solving the problems registered in 2008

Table 5

Priority Axis	Measures
1. Education and training in support for growth and development of knowledge based society	• The formation of more Evaluation Committees for the calls for proposals for grant projects managed at the level of MERI IB and the supplementation of the employed persons; • Organization of vocational specialized sessions for the evaluators; • Legislative modifications for the status and fiscal situation of the pre-university education institutions and research institutions.
2. Linking life long learning and labour market	• Modification of the pre-financing conditions stipulated by the OMPF no. 911/2007; • Modification of the GO no. 29/2007, art.17.1 so that MA can delegate the commitment and payment of expenses towards any type of credit ordinator with IB role; • The formation of more Evaluation Committees for the calls for proposals for grant projects managed at the level of MERI IB and the supplementation of the employed persons in the Contracting Compartment within MERI IB; • Organization of vocational specialized sessions for the evaluators; • Legislative modifications for the status and fiscal situation of the pre-university education institutions and research institutions.
3. Increasing adaptability of workers and enterprises	• Externalization of the evaluation and selection activity (use of independent evaluators); • Organization of information and preparing sessions for potential beneficiaries for completing the application form and elaboration of good quality projects.
4. Modernizing the public employment service	• Supporting the beneficiaries on the correctness and completeness of the documentation through the elaboration by MA of detailed verification lists and their submission to the beneficiaries for completeness; • Modifying the Ordinance no. 29/2007 in order to clarify the working situation in the case when NAE IB has partially the payment function delegated.
5. Promoting active employment measures	• Externalization of the evaluation and selection activity (use of independent evaluators); • Organization of information and preparing sessions for potential beneficiaries for completing the application form and elaboration of good quality projects.
6. Promoting social inclusion	• Externalization of the evaluation and selection activity (use of independent evaluators); • Organization of information and preparing sessions for potential beneficiaries for completing the application form and elaboration of good quality projects.
7. Technical assistance	• Renewal of the terms of reference by eliminating the criterion “experience/vocational training” in the evaluation stage and its use in the offers qualification/selection and the re-launching of the acquisition procedure.

C. Within the Governance Program 2009-2012 in the Chapter 7 Labour Market activities for applying the four objectives related to this section are stipulated.

Governance objectives and action directions on labour market 2009-2012

Table 6

Governance objectives	Action directions
1. Equilibration of labour market and reducing the sectorial labour market deficits 2. Increasing the flexibility level of labour market 3. Improving the access on labour market of vulnerable groups, developing the inclusive labour market and active ageing 4. Strengthening the social dialogue at all levels for increasing its contribution to the economic and social development	• Increasing the employment level to almost 59% in present and to minimum 65% in 2012; • Increasing the participation to continuous vocational training from 2% to minimum 7% of population aged between 25-64 years; supporting the establishment and functioning of sectorial committees; • Increasing the gross minimum salary on economy to reach 50% from gross average salary on economy until the end of 2012; • Increasing the gross average nominal salary on economy in 2009-2012 with 55%; • Elaboration of a unitary payment system for public servants and contractual budgeter persons that will have differentiation criteria and the correlation of salaries between functions and areas of budget activities; • Efficient absorption of European financial resources for human resources development in order to ensure the support for vocational and occupational training; • Simplifying the hiring and dismissal procedure along with measures for the security of working places; • Supporting the dialogue employer-employee in the flexibility of working time, facilitation of occupational, professional and geographical mobility; • Reorganizing the county agencies for employment and vocational training; • Restructuring the vocational training centers for public services and their placement in the competitively system for employment and vocational training; • Stimulating through fiscal measures the participation of employees to continuous vocational training; • Ensuring vocational training services for persons from rural area and from vulnerable groups; • Stimulating the persons with pension age to remain on the labour market and attracting in activity the pensioned persons able to work; • Intensifying the legislative process of applying institutional measures that aim at reducing the undeclared work; • Re-dimensioning of the competences and attributions of control institutions for increasing the exigency and the responsibility for the control of working reports as well as for ensuring the health and safety at work; • Revising the whole law package on trade unions, employers unions, collective negotiations, working conflicts; • Revitalizing the social dialogue, including the participation of multinational companies.

Source: Governance Program 2009-2012.

As a result of strengthening the absorption process of structural funds and of the implementation of a subsequent mechanism for this purpose, 3.126 projects with a value of 2.48 milliards Euro have been submitted under SOPHRD until 24 of July 2009. The value EU + state budget of projects submitted until 24 of July 2009 exceeded the allocation EU + state budget 2007-2009, representing 216.12% reported to this. From the submitted projects, a total number of 2.868 projects with a value of 2.30 milliards Euro (EU funds + budget state) have been evaluated; this represents 93%of the total projects submitted until 10 of July 2009. 258 projects are also on the evaluation process, with a value of 186.18 millions Euro (EU funds + budget state).

In accordance with the measures applied as a result of the problems encountered in 2008, the following can be concluded:

- The EU value of the signed contracts reported to the EU allocation 2007–2009 is 39.54%
- The number of the signed contracts until the 31 of December 2008 is 36.18% of the total number of the signed contracts
- The number of the signed contracts between the 1 of January – the 24 of July 2009 is 70% of the total number of the signed contracts
- The payments paid until the 24 of July 2009 is 3.9% of the allocation EU + state budget 2007-2009 for SOPHRD.

Harmonization with the cohesion policy for combating the crisis

In accordance with the Report of the European Council of 11 of March 2009 (6452/09 SOC 96 ECOFIN 115 EDUC 22+COR 1), the majority of the labour markets of the EU Member States were not seriously affected by the recent economic decline and it was observed that between 2007-2008 over 6 millions of new jobs were created and the unemployment was under 7%, the lowest of the last decade. The employment rates continued to raise in EU reaching a level of 65,5% out of which 58.3% for women and 44.7% for old persons, bringing thus European Union more close to the objectives of Lisbon Agenda. Increasing in the deterioration period the participation rates of the consumers trust and the employment expectancies may be considered as a positive development. The structural unemployment continued to decrease up to 7.6% in 2008 and it was significantly lower than that registered in 2000. This indicator confirms also the positive structural impact of the Lisbon reforms implemented in the last years that facilitated demonstrably the transitions of the European labour markets and overcame the barriers for creating new jobs. For the same reasons, the high unemployment is expected to be transitory and to become rapidly close to the low rates of the last years when the real economy will recover.

Nowadays some Member States are clearly in the recession process and the decline started to affect the labour markets. The increase of the employment in the European Union gradually slowed, estimating it to 0.9% while the unemployment continued to increase. In the current conditions of economic contracting and of negative increasing employment projections for 2009, is very clear the fact that the objectives for 2010 are hard to reach.

It is expected that Member States will confront in 2009 a decline of the employment rate and an increase of the unemployment. The economic prognosis given by the European Commission in January 2009 suggests the fact that the employment will decrease with 2% in 2009-2010, while the unemployment will increase with 2.5% in the next two years, reaching an average level of 9.5% in 2010.

Moreover, the available forecasts suggest that the impact of crisis will probably "hit" Member States differentially: some expect a serious impact; others anticipate only moderate regressions within labour market.

The EU cohesion policy contributes in an important measure to the combating of the global financial crisis and the current economic slow down. The cohesion policy strongly supports the public investments, including those at local and regional level. It is the most important expression of the European solidarity and aims at supporting the most underprivileged European citizens. In 2007-2013 the cohesion policy will invest 347 milliards Euro for strengthening the increase and consolidation of the social and economic cohesion(7).

Together with other financial instruments of the cohesion policy, ESF plays an active role in the European action plan for recovery adopted by European Commission on 29 October 2008. This action plan stipulates a new EU architecture for financial markets, efforts for creating jobs and for stimulating the increase, as well as a global reaction towards the crisis on the financial markets.

The triple approach of this strategy is detailed in an European plan for economic recovery, general and coordinated, presented on 26 of November. This plan provides for 2009-2010 a fiscal stimulation with focused and temporally effect of 200 milliards Euro, i.e. 1.5% of EU GDP.

The European cohesion policy contributes in a considerable measure to this plan. The Commission proposed a serial of measures both legislative and of other nature in order to accelerate the project implementation in the field and to offer trust and dynamism to the European economy. EC proposed the acceleration of the payments towards Member States and the facilitation of the access to Structural Funds.

These advances are meant to ensure an immediately liquidities flow in the initial phase of the programming period, in order to facilitate the payments towards the projects beneficiaries. Member States have the obligation to respect the minimum national co-financing rates established by Regulations (between 15% and 50%, depending on the programme), but the system is flexible.

On 16 of December 2008 the European Commission issued a third Communication, complementary to the European Plan for Economic Recovery, where it is shown how the cohesion policy can contribute to the real economic recovery in Europe.

EC recommends to Member States actions for benefiting of the cohesion policy and its benefits. In the Communication there are also presented measures for accelerating the implementation of the operational programmes.

Having a European investment budget of 347 milliard Euro, available until 2013, this policy will stimulate the economy on short term, putting also the basis for the increase on a long time.

When the unemployment registered rate in June in Romania was 6.0% related to 5.8% in May 2009 and to 3.7 in the same month of 2008 (NAE, 06.07.2009), it is nuanced the extremely important role of SOPHRD in supporting those at risk of losing jobs. The economic and financial crisis manifested itself accentuated, following a spiral line in Romania when it is absolutely necessary to intervene in the same measure the recessive process intensifies.

Notes

(1) ***, *Council Regulation (EC) no. 1083/2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund.*

(2) *Strategic projects* are projects implemented at national, multi-regional or sectoral level, with values between 500.000-5.000.000 Euro in Lei equivalent.

(3) *Grant projects* are projects implemented at regional, multi-regional or local level, with values between 50.000-499.999 Euro in Lei equivalent.

(4) The exchange rate used was 3.8688 Lei/1 Euro.

(5) http://www.fseromania.ro/images/downdocs/lista_beneficiari_31122008.pdf.

(6) The *ex ante evaluation of the Sectoral Operational Programme Human Resources Development Final Report SOPHRD EuropeAid/121373/D/SV/RO EuropeAid/12121373/D/SV/RO*, pp. 13-14.

(7) http://ec.europa.eu/employment_social/esf/news/news/article_7362_en.htm

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